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Austria	Sch22	Indonesia	Rp3700	Oman	Or1			
Bahrain	Din0.700	Iran	[illegible]	Philippines	[illegible]			
Belgium	BFr60	Israel	[illegible]	Portugal	[illegible]			
Cyprus	C£0.90	Italy	L1700	Qatar	[illegible]			
Denmark	DKr13.00	Jordan	[illegible]	S.Arabia	[illegible]			
Egypt	E£3.25	Kuwait	[illegible]	Singapore	[illegible]			
Finland	Fmk7.00	Lebanon	[illegible]	Spain	[illegible]			
France	FFr7.00	Lux	LFr60	Sweden	[illegible]			
Germany	DM2.20	Malaysia	[illegible]	Switz	[illegible]			
Greece	Dr120	Morocco	[illegible]	Thailand	[illegible]			
Hong Kong	HK$12	Neth	[illegible]	Tunisia	[illegible]			
Iceland	[illegible]	Nigeria	[illegible]	Turkey	[illegible]			
India	Rup15	Norway	[illegible]	UAE	[illegible]			

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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LOMBARD

The world's worst tax

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World News

Jaruzelski expected to resign as Party leader

General Wojciech Jaruzelski, Poland's newly elected president is expected to offer his resignation as Communist Party leader at an important two day meeting of the Central Committee. Jaruzelski wants to shed his party role and project a new non-sectarian image as President Page 18

DC-10 crash

A South Korean DC-10 airliner crashed at fog-bound Tripoli airport, Libya, killing 78 people, the second DC-10 crash in nine days. Page 4

Stealth rebuffed

The US Congressional debate over the B-2 stealth bomber has moved into a new phase, after a vote by the House of Representatives to slash funding and halt production of the aircraft. Page 6

LDP may abolish tax

Japan's troubled ruling Liberal Democratic Party, which was heavily defeated in recent national elections, suggested the party might abolish a controversial consumption tax. Page 4

Cambodians agree

Cambodia's rival leaders have agreed on a compromise seating plan which will allow them to take part in the international conference on the future of their country. Page 4

Palme conviction

A petty criminal who has steadfastly protested his innocence has been convicted of murdering Swedish prime minister Olof Palme despite votes to acquit him by two judges on an eight-member panel.

Khashoggi released

Saudi arms dealer Adnan Khashoggi was released from a US jail on $10m bail despite court appeals to detain him, awaiting trial on fraud charges.

UK-Argentine links

Positive signals from indirect diplomatic contacts between Argentina and Britain have raised the firm prospect of a meeting between representatives of the two countries.

Shamir criticised

Hardline rivals of Israeli Prime Minister Yitzhak Shamir assailed him for meeting PLO supporters but other politicians praised the talks as a step towards peace.

Mayor arrested

The mayor of Atlantic City, America's east coast gambling centre, was arrested along with 12 other people in what officials called "a wide-ranging investigation into corruption and official misconduct."

Filippino rebel taken

Philippine troops captured communist rebel leader Satur Ocampo and his wife in a Manila ambush that politicians said was a major setback to the insurgents.

Greenpeace protest

Two Greenpeace ships set sail for a US offshore missile test zone in an effort to halt the launch of a Navy Trident 2 missile from a submerged submarine.

Karate on radio

Madagascan broadcasters are to learn karate after a group armed with one revolver seized the state radio this week in an attempt to launch a coup.

Business Summary

UK insurance company to pay £99m for Italian group

Royal Insurance, British composite insurer, is buying Lloyd Italico, a general Italian insurer, for £99m from Italy's Fondiaria Group. Fondiaria will retain a 10 per cent interest in the subsidiary. Page 19

UNITED Auto Workers, US motor union, suffered a humiliating defeat when it lost its first ever representation vote in a Japanese-owned US car facility by an unexpectedly wide margin. Page 6

EUROTUNNEL, Anglo-French Channel tunnel group, may have breached convenants in agreements with its lenders, placing it in technical default on some £5bn in credit lines. Page 19

ICI, Imperial Chemical Industries, UK's biggest chemicals company, announced pre-tax profits 18 per cent higher at £1.23bn in the six months to end-June. Page 19

ANHEUSER-Busch strengthened its grip on the US brewing industry in the second quarter with record sales and profits. Page 22

TAIWAN Government has made its first move against underground investment industry by raiding two companies and impounding their records. Page 4

HITACHI, Japanese electronics group, is to sell semiconductor manufacturing technology to Gold Star, South Korean group, in first technology transfer of its kind. Page 7

DIGITAL Equipment has reported a 22 per cent fall in fiscal fourth-quarter earnings with weak US demand for its computer products offsetting strong sales abroad. Page 22

BRAZIL'S car makers appear back on a collision course with the Government over retail prices, after sharp rises in steel prices. Page 6

ELDERS IXL, Australian brewer, shareholders approved a plan which could strengthen chairman Mr John Elliott's personal control over brewing, agribusiness and finance conglomerate. Page 23

BANCO Espanol de Credito (Banesto), one of Spain's main commercial banks, has entered potentially damaging row with large industrial affiliates, Carburos Metalicos, Catalan chemicals group. Page 20

US House of Representatives agreed temporary increase in the ceiling on US Government borrowings. Page 6

ENIMONT, Italian chemicals producer, has been threatened with action against possible illicit tax breaks by the European Commission. Page 3

PWA, Calgary-based company which owns Canadian Airlines International (CAI) and which recently bought Wardair, has reported another quarterly loss. Page 22

US car and truck demand has declined, taking its toll in the second quarter on General Motors and Ford, world's leading automotive manufacturers. Page 22

UAL and Delta Air Lines, two US airline companies, helped justify analysts' expectations of a strong quarter for the airline industry by reporting record earnings. Page 22

SHELL OIL, subsidiary of Royal Dutch/Shell, lifted profits after an improvement in earnings in all segments. Page 22

CADBURY SCHWEPPES South Africa, subsidiary of UK confectionery group, has lifted sales by a fifth. Page 23

OECD, international economic group, called for a a new range of policy measures aimed at bringing the long-term unemployed back into the workforce. Page 3

Thatcher counter-attacks after controversial reshuffle

By Michael Cassell in London

MRS Margaret Thatcher, the British Prime Minister, yesterday acted to end the embarrassing controversy surrounding this week's Cahinet reshuffle by calling on senior ministers to launch a summer connter-offensive aimed at restoring the Government's fortunes.

Asserting her authority over ministers and MPs, she told the first meeting of her new Cahinet that she wanted to "draw a line" under this week's ministerial changes, which saw Sir Geoffrey Howe being reluctantly persuaded to leave the Foreign Office.

She did oot expect any further, significant changes in the top ranks of the Government before the next general election.

Although she did not express any regret over the week's events, her remarks were being interpreted as a call for an end to the damaging recriminations surrounding her reshuffle which many MPs believe has seriously backfired.

The end-of-term Cabinet session came a few hours before Sir Geoffrey Howe, the former Foreign Secretary, received an extraordinarily warm reception from Conservative MPs during his first appearance at the Honse of Commons despatch box.

Witb many Conservative MPs still angry over the Prime Minister's handling of this week's reshuffle and, in particular, of Sir Geoffrey's unexpected move, they mounted a noisy demonstration of support for the new Leader of the Commons and Deputy Prime Minister.

The loud and prolonged cheers, together with waving of order papers, also conveyed a clear "hands off" message to Mrs Thatcher about her future relationships with one of the party's most respected and influeotial figures.

Sir Geoffrey sat immediately to Mrs Thatcher's left. He gave a short report on government business and was said to be "scrupulously polite."

Close colleagues of Sir Geoffrey at Westminster were yesterday re-emphasising his determination to ensure that his new respoosihilities are exploited to the full and that he remains a highly influential figure within the party.

It was said that he intended to fulfill his role as deputy leader of the party and Leader of the Commons in the same way that Lord Whitelaw had done, although many MPs were expressing douhts about his ahility to establish the same type of relationship with the Prime Minister, giveo tbis week's events.

During question time, in which Mrs Thatcher repeatedly praised her new cahinet line-up but failed to provide any personal tribute to Sir Geoffrey, she forcefully re-emphasised

Continued oo Page 18

Official Soviet unions seek to re-establish control over all strikes

By Quentin Peel in Moscow

THE Sovlet Union's government-controlled official trade unions have tabled proposals which would ontlaw strikes which are not approved by their own committees.

The draft law, which follows growing industrial unrest throughout the country, has run into furious opposition from workers' deputies, and from leaders of the recent mass miners' strike, who see it as a negation of the whole process of labour law liberalisation.

Trade union officials yesterday said that the draft had been approved by key government ministries and had been put forward but that numerous amendments had now been tabled by deputies in the Supreme Soviet.

Soviet leader Mikhail Gorbachev (right) and Prime Minister Nikolai Ryzhkov at the opening of the Supreme Soviet yesterday

The key provision of the draft would require any strike action to be approved by the official trade union committee concerned – effectively leaving control in the hands of the traditional state and Communist Party bureaucracy.

At each stage of an industrial dispute, the draft also seeks to make the decisions of conciliation panels, and labour arbitration, legally binding.

It also sets out a wide range of industries, including public transport, communications, defence, power engineering and continuous process industries, in which strikes would be outlawed.

"You read it, and you will realise tha document is groundless. It doesn't allow strikes at all," Mr Yuri Bondaryev, a member of the Donetsk miners' strike committee, said in Moscow this week.

He said the official union leadership – the All-Union Central Council of Trade Unions – was ont of touch with the Soviet workforce.

"They do not feel how the situation is changing. It will not lead to anything good."

The miners' strike leaders, elected in spontaneous strike committees across the country, have won their demand for new elections to replace their local trade union leaders. However, many believe the entire official union structure, with a large bureaucracy at national headquarters, is simply an extension of the state bureaucracy.

The union's draft strike law was yesterday the subject of heated debate in the Supreme Soviet's Commission on Labour and Social Affairs, with depnties tabling a series of amendments.

Mr Vassily Klebtsov, head of the legal department at the AUCCTU, said it would be substantially altered from the original union draft.

Union officials said the draft was agreed between the AUCCTU, the Ministry of Justice and the State Committee for Labour, the equivalent of a Labour Ministry.

There was general agreement that the aim of the law should be to restrict strikes, not to permit them. "The most important thing is to protect the right to work," according to Mr Andrei Shugayev of the Institute of State and Law. "The law must be preventive (of strikes)."

At the moment, although the right to strike is in the Soviet constitution, in practice they have no legal basis, and strikers are usually regarded as being guilty of civil disobedience. The miners' strike, which involved more than 250,000 workers at its peak, has changed all that.

Bristol-Myers, Squibb join rush to merge

By Roderick Oram in New York

BRISTOL-MYERS and Squibb, two big US pharmaceutical groups, agreed yesterday to a share swap which will create tbe world's second biggest drugs group witb annual sales of $8.6bn and stock market capttalisation of about $25bn.

The merger, coming hard on the beels of Dow Chemical's agreed bid for Marion Laboratories and SmithKline Beckman's merger with Beecham of the UK, sparked a rally of other US drug stocks on the New York Stock Exchange.

Shares of Schering-Plough, Upjohn and Pfizer were particularly active as investors scrambled to bet on other possible combinations.

"The pace of consolidation is far faster than I anticipated," said Mr Sam Isaly of Mehta and Isaly, a New York-based consultant to the global drug industry. "It might reflect terror in the boardroom that they might be left behind."

Bristol-Myers Squibb will have some 4 per cent of the world drug market, only just behind Merck of the US and about one point more tban SmithKline Beecham.

Bristol-Myers and Squibb, whose chairmen bave known each other well for more than two decades, said they began to realise the benefits of a merger three years ago. "We are an absolutely unique fit," said a senior executive of one of the companies.

Merger talks began in earnest less than two weeks ago, prompting Wall Street speculation that Squibb might have been under pressure from a potential bidder sucb as Glaxo of the UK. Senior management of the companies vigorously denied it yesterday in a New York meeting witb analysts.

Squibb's stock rose from $76 on June 30 to $87¾ oo Wednesday then vaulted yesterday $23¾ to $112, valuing the company at $11bn.

For each Squibb share investors will receive tax-free 2.4 Bristol-Myers shares, which fell $3¼ to $48⅝ yesterday. The companies billed tbe deal as an old-fashioned stock swap merger. Long languishing in the face of bigb-premium casb takeovers, tbe technique gained a new lease on life tbrougb the recent Time-Warner transaction. Courts in Delaware upheld managements' right to take long-term actions that migbt not be in investors best sbort-term interests. Bristol-Myers and Squibb are both incorporated in Delaware.

The two companies' rush to get married was evident from their lack of post-honeymoon planning. Squibb will retain its separate identity, but lengthy discussions in coming months will resolve how the two companies will otherwise be melded together.

On a combined basis, the two companies had net income of $1.3bn last year, drug revennes of $4bn and spent more than $600m on research and development. Each had 4,000-strong sales forces. Their wide drugs portfolio includes world leaders in cardiovascular and anti-cancer fields plus a number of highly promising new products.

The combined group's activities will also extend to consumer products such as toiletries, medical devices and nutritional products such as infant formulas.

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US bond prices rise amid signs of economic slowdown

By Anthony Harris in Washington, Janet Bush in New York and Ralph Atkins in London

FURTHER evidence of slower US economic growth yesterday appeared to justify the Federal Reserve's monetary easing earlier this week and belped send US bood and equity prices higher.

Real growth fell to an annual rate of 1.7 per cent in tbe April-June quarter from 3.7 per cent in the first quarter, according to advance estimates released by the US Commerce Department today.

However, inflationary pressures are still present. Inflation, measured by the fixed-weight GNP deflator, rose to an annual rate of 5.2 per cent from 4.6 per cent in the previous qoarter – bot excluding energy prices, the rate of increase fell slightly.

Despite acceleration in the inflation measure, the bond market did not appear too worried. The growth figure was ratber weaker than tbe markets had expected aod bood prices rose modestly.

Financial markets appear to have accepted the Federal Reserve view that price pressures in the first half of this year were largely related to supply conditions in the food and energy sectors and were temporary. On Monday aod Tuesday, the Federal Reserve indicated that it was lowering its target for the Fed Funds rate, that at which banks lend to each other overnight.

The growth figures suggest little change in the level of activity outside the farm sector.

Sterling climbed a pfennig against the D-Mark yesterday, building on gains following Wednesday's trade figures, to close above DM3.10 in London.

Sentiment was encouraged by Bank of England weekly figures for bank notes in circulation. Analysts said these snggested M0, the narrow measure of the money supply, was growing at a seasonally-adjusted rate of betweeo 5.5 per cent and 5.7 per cent in the year to July. That compared with 5.9 in June and the Treasury's target range of 1 per cent to 5 per cent.

Analysts said the pound will continue be to underpinned by a belief that UK interest rates are unlikely to be cnt for some time. The FT-SE 100 sbare index closed 19.2 higher at 2,283.7

UK Government blocks sale of 50 Hawk trainer jets to Iraq

By Andrew Gowers, Middle East Editor, in London

THE UK Government yesterday blocked an attempt hy British Aerospace to sell more than 50 Hawk trainer jets to Baghdad.

The Cabinet overseas and defence committee decided not to allow negotiations between BAe and Iraq to proceed on the grounds that tha proposed deal – which would have been worth several hundred million dollars – fell outside the UK's official guidelines on weapons sales to the Gulf war combatants.

Ministers appear to have been swayed by concern about the fragile nature of the 12-month-old ceasefire between Iran and Iraq and about Iraq's human rights record.

BAe had no immediate comment on yesterday's decision, which was reported by Whitehall officials. But it will be a bitter disappointment to the British company, which had hoped that a Hawk deal would serve as an entrée to further re-equipment business in Iraq following the eight-year Gulf conflict. It makes it more likely that Iraq will choose the Alpha jet, made by Dassault-Breguet of France and Dornier of West Germany, to meet its trainer requirement.

France is Iraq's second most important arms supplier after the Soviet Union, and British Aerospace had for some time been looking for a chance of challenging French arms manufacturers in the Iraqi market. It also saw the contest as a crucial part of tha global rivalry between the Hawk and the Alpha jet.

Talks on the deal, which would have involved an initial sale of around 50 Hawks and local production of the aircraft, have been under way since shortly after last summer's ceasefire. It had become a test of British Government attitudes to post-war arms sales to Iran and Iraq. The Ministry of Defence and Department of Trade and Industry supported British Aerospace in its argument that the trainer, as a non-offensive aircraft, fell within the Government's 1984 export guidelines.

Opponents of the deal said the Hawk could easily be converted for combat purposes. In particular, the Foreign Office has been worried that a sale of Hawks to Iraq might jeopardise Britain's long-term chances of restoring diplomatic relations with Iran. Officials have also pointed to Iraq's human rights record and its use of chemical weapons against its Kurdish minority as arguments against the sale.

But it is the shaky truce between Tehran and Baghdad that appears to have determined yesterday's decision. Although a formal ceasefire took hold on August 20 1988, a truce agreement has yet to be signed and peace negotiations have made no progress.

Apart from the Alpha, other aircraft in the running for the Iraqi trainer contract are believed to include the MB-339 made by Aeromacchi of Italy and the C-101 from Spain's Casa.

MARKETS

STERLING
New York lunchtime: $1.6610
London: $1.6600 (1.6500)
DM3.1025 (3.0925)
FFr10.5075 (10.4725)
SFr2.6675 (2.6625)
Y230.50 (232.0)
£ Index 93.4 (93.0)

GOLD
New York: Comex Aug $374.6
London: $374.25 (373.75)

N SEA OIL (Argus)
Brent 15-day Aug $17.275 (17.225)

Chief price changes yesterday: Page 16

DOLLAR
New York lunchtime: DM1.8172
FFr6.3385
SFr1.6095
Y139.20
London: DM1.860 (1.874)
FFr6.3300 (6.3475)
SFr1.6075 (1.6130)
Y68.1 (69.7)
$ Index 69.1 (69.7)
Tokyo close:139.35

US LUNCHTIME RATES
Fed Funds 9.00%
3-mo Treasury Bills: yield: 8.152
Long Bond: $109\frac{3}{16}$
yield: 8.050%

STOCK INDICES
FT-SE 100: 2,283.7 (+19.2)
FT Ordinary: 1,902.5 (+18.7)
FT-A All Share: 1,166.71 (+0.7%)
FT-A long gilt yield index high coupon: 9.40 (9.43)
New York lunchtime: DJ Ind. Av. 2,621.59 (+8.54)
Tokyo: Nikkei 34,785.28 (+266.45)

LONDON MONEY
3-month interbank: closing $13\frac{27}{32}$

SELLING PRICE IN IRELAND 60p, IN MALTA 40c

CONTENTS

Problems gather for President-to-be Rafsanjani

Mr Rafsanjani (left) can be in no doubt that today's election will provide him with a strong endorsement as leader. His immediate task is to dampen some t the more axtravagant hopes being pinned on him. Page 18

London and Bonn settle rows on low-flying and radar

By David Goodhart in Bonn

AN OUTLINE deal resolving two of the most serious political-military differences between Britain and West Germany – low-flying over Germany and the choice of radar system for the Eurofighter Aircraft – has been provisionally agreed. However renewed tension between Germany and its Nsto partners can be expected over its withdrawal, on financial grounds, from certain collaborative military projects.

The deal over low-flying, whicb has involved tricky negotiations witb several of Germany's Nato allies but particularly the US and UK, should be formalised at the end of August ready for Mr Gerhard Stoltenberg, the German Defence Minister, to present to the Bundestag in September.

The disturbance created by low-flying has been a concern in Germany for many years but boiled over into a hot political issue after several accidents at the turn of the year. When Mr Stoltenberg became Defence Minister in April he made the negotiations to reduce low-flying, already in progress, a priority issue and took them out of the hands of the military.

According to defence officials he has succeeded in cutting back low-flying by about 50 per cent. The maximum period of low-flying in one mission is to be halved to 15 minutes. Currently the British alone fly about 19,300 missions per year over the seven designated areas of Germany.

Most low-flying takes place at about 75 metres but some flying is allowed as low as 35 metres. Although the demand of some local authorities to ban all flying below 300 metres has been rejected it is believed that some restriction on the very lowest flying has been accepted.

The British have been the most reluctant of the relevant allies to budge on low-flying and according to some officials they were only persuaded to accept sharp cuts in return for an agreement from the Germans on the Eurofighter radar system preferred by the British, the ECR 90. This linkage is denied by the British Ministry of Defence.

In any case a final agreement on the Ferranti-led ECR 90 system does now look set for the end of August. The Germans had been arguing that the ECR 90 is too risky and would lead to enormous cost over-runs which their fragila defence budget could not carry.

According to Jane's Defence Weekly a recent review of that defence bndget bas placed a question mark over at least three big collaborative projects. It is claimed that the Germans bave stopped funding the Advanced Short Range Air-to-Air Missile (ASRAAM) being developed by the UK, US and Germany. And the German role in the Nato Frigate Replacement Programme and the Anti-Navire Supersonique missile being developed with the French is also said to be in jeopardy.

The German Defence Ministry did confirm that a review of projects was continuing and that priorities would have to be selected in September. The 1990 defence budget of DM54.47bn has risen only in line with inflation and although research and development expenditure is rising, spending on procurement is set to fall next year by 4.5 per cent.

Bridge deal appeal to Euro court

By David Buchan in Brussels

THE European Commission yesterday decided to make an urgent appeal to the European Court of Justice to order Denmark to re-open tendering for the Dkr3bn (£250m) Storebaelt bridge contract.

The Commission claims that Denmark broke EC non-discrimination rules in asking bidders to use largely Danish labour, gear and materials.

The contract was awarded in June to a consortium of three Danish companies – plus Taylor Woodrow of the UK, Ballast Nedam of the Netherlands and Losinger of Switzerland – which beat a consortium led by Bouygues of France and Trafalgar House of the UK. The latter complained to the Commission.

The Commission has acted with unusual speed in an effort bid to have the contract re-opened before work starts on the 6.6km road and rail bridge to link Sjaelland to the Jutland peninsula.

Denmark has refused to change the contract, arguing that the special requirement on local content was removed from the final contract.

This is the first time such a big contract has been challenged under EC law, and is a key test for the opening of public procurement.

France warns laggards on road to monetary union

By Tim Dickson in Strasbourg

FRANCE YESTERDAY underlined its determination to push ahead quickly with plans for European economic and monetary union, and warned Britain that other EC countries would reach their own agreement if it rejects their terms.

In a speech outlining France's ambitions for its EC presidency, Mr Roland Dumas, the Foreign Minister, told the European Parliament he intended to set up a new group of foreign ministers' representatives to "start work without delay on the preparatory texts for the drafting of a new treaty" (on monetary union).

The principle of staging an inter-governmental conference to endorse such a treaty was an approved at the Madrid summit, which also agreed in principle on the first stage of the road to monetary union mapped out in the Delors report.

The "first stage" – intended to enter force next July 1 - calls for all EC currencies to participate in the exchange rate mechanism of the European Monetary System, and for greater economic and social cohesion.

Mr Dumas has had a mixed response to his plan for a new working group, an idea he first floated over a foreign ministers' lunch this month in Brussels. Britain's reaction was apparently the most cool but other member states are understood to have asked why preparation could not be carried forward in Brussels in the regular meetings of EC ambassadors.

At a news conference Mr Dumas repeated many of the sentiments about British reluctance expressed by President François Mitterrand in an interview with several European newspapers this week.

Mr Dumas initially appeared to take a conciliatory line – stressing the fact that Mrs Margaret Thatcher had shown herself willing at Madrid to start work on the Delors report and to accept the first of the three stages to EMU which it outlined.

He said that he wanted the Community "to go ahead on the basis of all 12 countries" agreeing to a comprehensive and gradual process of economic and monetary union but that "if one of the 12 cannot agree, the other 11 are not going to mark time."

Asked whether he expected member states to sign a new treaty or to amend its founding charter the Treaty of Rome, he suggested tbat botb approaches were possible.

Among other EC presidency priorities highlighted in Mr Dumas' speech were the fight against unemployment, and the need to strike "a balance first of all between liberalisation and harmonisation" on the road to 1992.

He insisted that undertakings regarding the harmonisation of taxation on savings . . . will have to be complied with" – a reference to the Commission's proposal for a common withholding tax on bank interest.

EC to act on tropical rain forests

By Tim Dickson in Strasbourg

AN IMPORTANT debate on how the European Community can best contribute to the preservation of the world's tropical rain forests is expected in the next few months following a new initiative in Strasbourg yesterday.

It came in tha form of a "communication" to the Council of Ministers prepared by the EC's environment commissioner Mr Carlo Ripa di Meana and formally adopted by his colleagues at their weekly business meeting.

As sncb, the document makes no commitment on financing and indeed, the controversial idea of a carbon tax on energy consumers which was actively discussed at the drafting stage was shelved in the interests of reaching a Commission consensus yesterday.

On the other hand, the communication's reference to the "need to mobilise greater international resources for development assistance programmes in general, and for tropical forest conservation in particular" is a prompt to member states in the discussions planned for the September and November meetings of EC Energy Ministers.

Yesterday's Commission communication, which follows the concern expressed both at the EC Summit in Madrid last month and at the Summit of tbe main indnstrialised nations in Paris this month, clearly establishes the link batween tropical forest destruction, man made carbon-dioxide emissions, and global environmental threats like the "greenhouse effect", the trapping of the sun's heat near the earth's surface.

By the 1980s, it explains, roughly half the tropical forests existing at the turn of the century had been destroyed, while the only formal worldwide survey of deforestation carried out in the early 1980s showed that the rate of loss of tropical forest was about 11m bectares per year (an area approximately three times the size of Belgium).

The Commission calls on the EC to "support strongly" countries trying to carry out forestry programmes, to do more through its agreement with the African, Caribbean and Pacific countries, and to work closely with the World Bank and the International Monetary Fund " to avoid financing programmes and projects likely to hava a delaterious impact" on tropical forests.

Senior Commission officials are convinced that the idea of the carbon tax is not dead, and that it may re-emerge either in a forthcoming paper on energy and the environment or in future Council discussions.

Balts win measure of economic freedom

By Quentin Peel in Moscow

THE SOVIET parliament yesterday gave the green light for tbe Baltic repnblics of Estonia, Latvia and Lithuania to press ahead with plans for sweeping economic self-management – bnt stopped short of approving a proper legal base for the process.

The move is a crucial step towards decentralisation of the economy – and a big sop towards the growing independence movements in the outlying republics. However it is also clearly a compromise, which still gives opponents a chance to hamstring the process in formal legislation later this year.

Tha vote came after six hours of stormy debate yesterday pitting Russians and Central Asians against increasingly independence-minded Balts, and the most dedicated economic reformers.

The compromise, thrashed out by Mr Mikhail Gorbachev and his aides the previous night, was clever enougb to enjoy overwhelming support from both sides.

It was welcomed by leaders of the Baltic republics as a crucial decision paving the way for their ultimate ambition of far-reaching economic independence of Moscow.

The Snpreme Soviet in Moscow decided to give its blessing to the proposals by the republics for "regional cost-accounting" from January, one year before the rest of the country is supposed to go over to the system.

It means that they can have substantial independence in local budget planning, taxation, and production – within a framework still set by Moscow.

What it does not yet do – but the Baltic repnblics want – is give them the "economic independence" they are looking for. That is to be finalised in legislation next October.

The decision ducked the crucial questions of whether the Baltic republics will be formally the owners of their own natural resources – and therefore able to deny Moscow Ministries any right to exploit them without local permission, for example.

Without a detailed law, there is no mention of whether they can go ahead with plans for their own currencies, as both Estonia and Lithuania ultimately intend.

Opponents of the process are divided between those who see it as little more than closet nationalism in economic clothes, and those who want to follow tha same course, and don't want the Baltic republics to have a head start.

Major figures who spoke out against the full demands for "economic independence" included Mr Vitaly Vorotnikov, president of the Russian federation, and Politburo member.

He said the Baltic plans were contradictory, failing to clarify bow factories belonging to central government ministries could be brought under local control.

● Soviet economic growth is falling behind target while wages are racing ahead of productivity and adding to inflation, Reuter reports from Moscow.

Official figures for first half of the year show labour unrest is rising while foreign trade has slipped into deficit. Wages were growing at 10 per cent a year while productivity had increased by only 2.7 per cent.

Belgian coalition tries to hold the line on spending

By David Buchan in Brussels

THE BELGIAN Government yesterday agreed a BFr80bn (£1.23bn) package of tax increases, spending cuts and debt interest deferral to try to prevent the country's public expenditure gap growing next year.

Mr Wilfried Martens, the Prime Minister, seeking to maintain public austerity despite last year's entry of the Socialists into the coalition, said the Government would bold tbe 1990 bndget deficit (excluding debt interest charges) to BFr405.5bo, the same level as this year.

Given an expected inflation rate of 3 per cent, this would produce "a real economy of the same order", the Prime Minister said. This would bring the budget deficit, again shorn of debt servicing, down from 6.9 per cent of gross national product to 6.5 per ceot.

But piling interest charges on Belgium's enormous public debt would still mean a further increase in the cost of debt servicing from BFr441bn this year to BFr512bo next year. None the less, Mr Martens forecast that from next year the "snowball effect" of cumulative debt interest could be broken, "due to the measures just decided and on condition the economy performs as favourably as predicted".

To contain the budget imbalance next year, the Government has decided to: cut spending by BFr30bn, with defence taking a major reduction; issue BFr20bn worth of six-year Treasury bonds to banks and financial institutions instead of paying that amount due in interest next year, and to save another BFr10bn in better debt management; raise excises on tobacco, alcohol and diesel and taxes on individuals by BFr9bn; close tax exemptions for companies, while still lowering slightly the basic rate of corporate tax, to produce savings of BFr10bn.

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EUROPEAN NEWS

OECD annual Employment Outlook

Slower growth in jobs forecast

By George Graham in Paris

AFTER THE strongest employment growth for a decade in 1988, industrialised nations face a slowdown in job creation and stable rates of unemployment over the next two years, according to the Organisation for Economic Co-operation and Development (OECD).

In its annual Employment Outlook the Paris-based organisation forecasts that employment will grow by around 1.25 per cent this year, after 1.8 per cent in 1988, and by 1 per cent in 1990. This will still leave more than 28m people out of work in the OECD area by the end of next year, with an unemployment rate unchanged at around 7.25 per cent.

Unemployment is projected to increase in New Zealand, Turkey and some Scandinavian countries, with declines in countries like Spain, Belgium and the UK.

UNEMPLOYMENT RATE FORECASTS (%)

	1988	1989	1990
Total OECD	7.3	7.0	7.25
OECD Europe	10.1	9.75	9.75
Canada	7.8	7.75	7.75
France	10.1	10.0	10.25
West Germany	7.9	7.5	7.0
Italy	11.0	11.0	11.5
Japan	2.5	2.25	2.25
UK	8.2	7.0	7.25
US	5.5	5.25	5.5

Source: OECD

Only West Germany and Spain are expected by the OECD to create jobs fast enough over the next two years to remain on course towards the target of reducing unemployment to the level of 10 years ago, but both these countries may also see more people moving into the workforce than had been forecast, the organisation warns.

The study notes reports of skill shortages in many member countries. In the UK and Canada labour scarcity has increased sharply since the end of the recession while in Sweden "the problem of labour shortage is pressing and immediate."

These shortages, together with the upsurge in inflation in many OECD countries, has put pressure on wages. Earnings growth is expected to accelerate to 5.75 per cent this year and to 6.5 per cent in 1990, compared with 5.4 per cent last year and 4.5 per cent in 1987.

At the same time, productivity gains are expected to slow down, so that labour costs per unit of output will rise from 3.2 per cent last year to 3.25 per cent in 1989 and 4.5 per cent in 1990.

Noting the expansion of part-time work and of the full-time employment of women, the OECD reports says that there is some evidence that economic growth has begun to eat into the numbers of people unemployed for long periods, who have proved the most difficult to bring back into the labour market.

Statistics for 1987 show an increase in the numbers of people out of work for more than a year, but the report says that most of the countries which have figures available for 1988 show a slight reduction in long-term unemployment.

Report calls for new action on the long-term unemployed

By George Graham

A NEW RANGE of policy measures aimed at bringing the long-term unemployed back into the workforce is called for by the OECD.

"The time is ripe for major reforms and policy initiatives to reintegrate the long-term unemployed into the labour market," it says.

With unemployment remaining high despite strong growth in jobs over the past year, the OECD says member countries should act to break down barriers which stop people from taking part in the economy. This means making it easier to have a "non-standard" form of job, including part time or home-based work.

At the same time, the OECD says governments must rethink their unemployment benefit systems to make sure that income support payments are linked to some means of reinserting the jobless in the labour market. "Simply tiding over a period of unemployment, while the skills of the jobless inevitably deteriorate, is wasteful of talents."

Mr Peter Shearer, editor of the Employment Outlook, said that while economic growth was the main factor in the variation of overall employment levels from year to year, the OECD believed that the right structural measures could improve the overall performance of a country's economy, and lower the level of unemployment at which it could continue to grow without inflation.

Better and more targeted education is also needed, the report suggests, since those whose educational qualifications are lowest are also the most at risk of unemployment. "Skill formation is the key ongoing challenge in the OECD area," said Mr Tom Alexander, head of the organisation's social affairs department.

The theory that skill requirements are rising across the board is not borne out by the evidence, the report says, but there are signs that the minimum educational threshold for breaking into the jobs market is climbing.

A general rise in educational achievement, however, might simply lead to a greater use of formal educational qualifications as a screening device, without adding anything to productivity.

Mr Shearer added that in the area of technical skills, where the most acute labour shortages were now being experienced, much of the knowledge had to be developed on the job. This meant companies had to develop their own training.

Commission threat over Enimont tax breaks

By William Dawkins in Brussels

THE European Commission is threatening to take action against possibly illicit tax breaks offered to Enimont, the Italian chemicals producer.

It believes that the company, formed last year by the merger of Montedison and the chemicals activities of Eni, the Italian state holding company, could be gaining unfair competitive advantages from a government decree that exempts Enimont from 75 per cent of its capital gains.

Sir Leon Brittan, the Competition Commissioner, has called on the Italian Government to justify the scheme, which could lead to Enimont avoiding an estimated capital gains tax bill of L825bn (£370m). The surplus arises from a revaluation of assets following the merger.

The Commission yesterday gave Sir Leon permission to open formal proceedings if Rome fails to disprove its suspicions that it is contravening EC rules against most kinds of state aid. This gives him the power to force Rome to overturn the tax decree and charge Enimont its full tax bill.

The move comes a day after the Commission announced a wide-ranging crack-down on all kinds of anti-competitive state subsidies. It also launched an inquiry yesterday into a Dutch government plan to extend and reschedule existing interest-free loans to Volvo's Dutch offshoot.

Volvo Car, 30 per cent owned by the Swedish parent company and 70 per cent controlled by Dutch public interests, would benefit from two state-sponsored funds, under the scheme. The revolving funds, worth a total of Ecu942m (£632m), would provide interest-free loans to back the development of new models.

"Given that no other EC car manufacturer benefits from such a favourable financial instrument for the development of new car models, the Commission has decided to open an investigation," said a spokesman.

West Germany's economy shakes off its sluggishness

The rate of growth is confounding all the forecasts, writes David Marsh in Bonn

IS THE SNAIL turning into a racehorse? The West German economy, which only 18 months ago looked set for a period of chronic sluggishness, is spurting ahead at a speed astonishing the Jeremiahs.

Structural problems – especially West Germany's reluctance to hasten deregulation and to dismantle subsidies – were worrying observers last year.

These handicaps remain, but they have been swamped by a glut of orders stemming from strong worldwide demand for capital goods. Mr Theo Waigel, the Finance Minister who took over in April, is basking in economic sanguinity.

The rays of optimism have largely been generated from outside. But there have also been encouraging signs that the backbone of the West German economy, manufacturing industry, is tackling the challenges of the 1990s with much more resilience and flexibility than seemed possible a few years ago.

Only 12 months ago, the 24-nation Organisation for Economic Co-operation and Development (OECD) forecast that West Germany's 1989 growth would slow to 1.75 per cent, less than half the rate which now looks likely.

The OECD secretariat in its annual report on the economy warned last July that low growth risked feeding on itself, setting up a "vicious circle" of weak investment and job creation, accompanied by increased resistance to necessary structural changes.

When the OECD publishes its latest findings on the Federal Republic on Tuesday, the picture will have brightened considerably.

Benefiting from foreign demand, which will take the West German trade and current account surpluses to new records this year, as well as healthy capital spending, companies report sharply higher profits. Capacity use is the highest for 18 years – another factor behind a mini-investment boom.

Unemployment has fallen this summer to below the 2m level for the first time since 1982, although, on average, it will be around 2.1m for the whole of 1989.

The Bonn Government is forecasting 3 per cent economic growth next year – good news for Chancellor Helmut Kohl, who has to fight a tough general election at the end of 1990. This follows 3.4 per cent expansion in 1988 and a projected 3.5 to 4 per cent increase this year.

If the prediction is born out, it would represent the first time since the first oil shock in 1973 that West Germany turned in a 3 per cent-plus growth rate for three years in a row. Even more important, 1989 would be the first year since 1979 (and only the third year since 1970) that the Federal Republic will grow at above the average of the OECD's industrialised economies.

The change in fortunes for the much-maligned "German model" has coincided with a downturn in prospects for the US and Britain, the two countries which in the 1980s most energetically hoisted the free-market banner.

Mr Siegfried Cassier, chief economist at Düsseldorf-based Industriekreditbank, which specialises in long term loans to small and medium companies, says West German growth would be one percentage point higher if the Government brought in further-reaching deregulation. He points out that the country has benefited from the international "drum-beat" of liberal Thatcherist economics in reviving export markets – even though this is a policy which Bonn is reluctant to practise itself.

Next year's growth is likely to be underpinned by a net DM25bn of tax cuts coming into effect on January 1. The tax reduction programme bequeathed by Mr Waigel's predecessor, Mr Gerhard Stoltenberg, has been increased, partly for electoral reasons.

It will give a useful fillip to overall European growth at a time when the international economy will be weakening because of a slowdown in the US.

Mr Ernst-Moritz Lipp, chief economist at the Dresdner Bank, talks of West Germany playing a role as a "European locomotive" next year. He points out, however, that this will depend on the domestic economy maintaining impetus when taken off the "drip" of above-average export demand.

One question-mark centres on whether the Bundesbank, the statutorily-independent central bank, will step in with significant monetary tightening to ward off dangers of over-heating.

This year's higher-than-expected inflation rate, at 3 per cent, is causing some mild anxiety. But nearly one point reflects the impact of consumer tax increases which took effect in January, which will drop out of the annual comparison in the New Year.

In view of the inflation pick-up, Mr Otto Schlecht, State Secretary at the Economics Ministry, punctuates his otherwise confident analysis of prospects with a warning of a possible "wage-price spiral" after next year's metalworkers' pay round.

However, the Bundesbank has been deliberately raising interest rates in recent months to maintain what one director of the central bank calls a "stability-oriented" climate ahead of the pay negotiations. Both the IG Metall trade union and employers point to the danger of a strike next year. But labour fears that hefty pay demands would provoke the Bundesbank into organising a recession may dampen the chances of a serious pay clash.

Part of the reason for the brighter outlook is that West Germany has moved under a lucky economic star. International growth optimism, engendered by the European Community's 1992 single market programme and by East-West detente, has coincided with a period of relative weakness of the D-Mark.

Confounding the pessimism at the time of the stock market crash in October 1987, overall growth in the OECD last year topped 4 per cent, and is forecast to continue at close to 3 per cent this year and next.

Reflecting the strength of the dollar and of currencies within the European Monetary System, the D-Mark has been devalued in real terms by about 6 per cent on a trade-weighted basis since end-1987.

All this has provided the best possible combination to West Germany's exporters of cars, chemicals, machine tools and capital equipment. And, at the same time, the sluggishness of world commodity and oil prices has prevented the D-Mark's weakness from significantly boosting inflation.

The Economics Ministry is projecting a 7 per cent increase in exports in real terms this year, with imports up only 5.5 per cent – although imports should again grow faster than exports next year. As a result, the current account surplus, which was DM85.2bn in 1988, will rise to a new record this year, boosted also by rapidly-rising interest income on West Germany's burgeoning foreign assets.

Continuing huge international payments imbalances focussed on the US, West Germany and Japan provide ingredients for potential currency unrest. One anxiety haunting West German economic policy-makers over the past few years has been that a new bout of dollar weakness would choke off export growth and trigger an international recession. The risk has not been entirely banished. But, as the sun shines on the West German economy, for the time being at least, no-one is worrying too much.

Japan's ruling party may abolish consumption tax

By Stefan Wagstyl in Tokyo

A LEADER of Japan's troubled ruling Liberal Democratic Party, which was heavily defeated in recent national elections, yesterday suggested the party might abolish a controversial consumption tax.

The tax, introduced only in April, is widely seen as the prime cause of the party's biggest electoral defeat in more than 30 years when it lost control of the upper house of the Diet last Sunday. The debacle prompted Mr Sousuke Uno, the prime minister, to announce plans to resign and plunged the party into a hasty search for a new leader.

Even before the result, LDP leaders were saying the tax would be revised. But yesterday's remarks by Mr Shin Kanemaru, a former deputy prime minister, indicate the party may go further.

Mr Kanemaru told members of his party faction that the tax had been the main reason for defeat, ahead of the Recruit scandal and unpopular policies to liberalise agriculture. The tax was rejected by voters and may be rejected again. "If we don't pay attention to the tax, what's going to happen to us in the approaching lower house election?" (The lower house has the upper hand in the bicameral Diet).

Other party leaders said drastic revision would be better than abolition. One suggested exempting food from tax; another proposed renaming it a welfare tax.

The party's willingness to reconsider a tax which formed the centrepiece of its policies only a few weeks ago is a classic sign of the LDP's ability to react flexibly in a crisis. The opposition parties' electoral success was largely due to their pledge to abolish the hated tax.

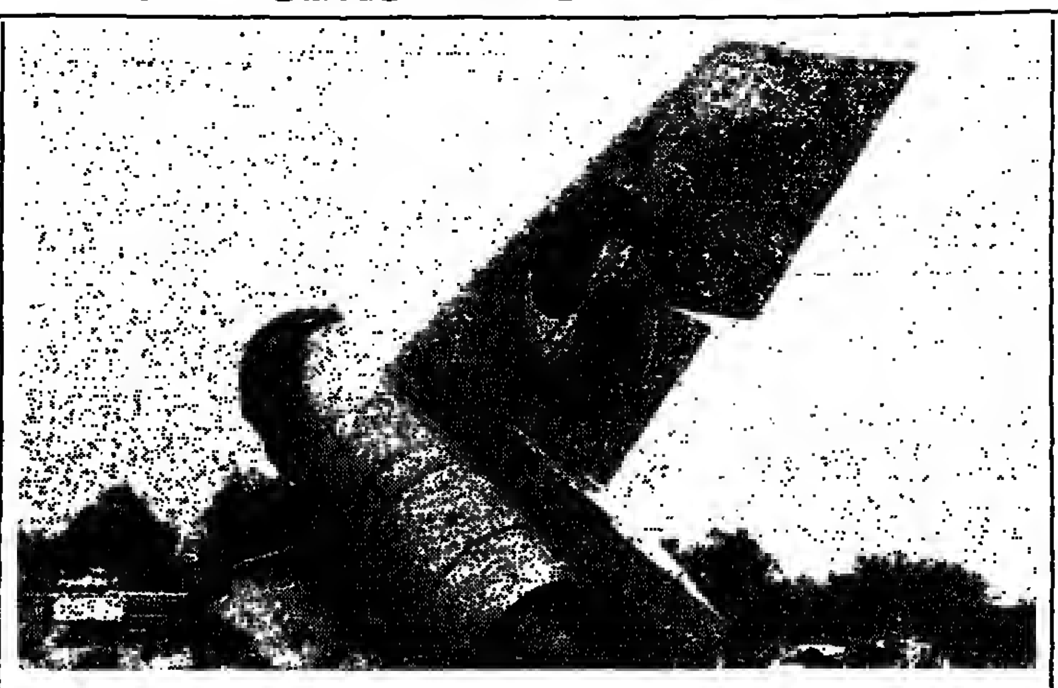
Unencumbered by ideology, the LDP finds it easy to borrow policies.

An LDP turnaround would be made easier in this instance by the fact that some senior figures, including Mr Kanemaru, always opposed the tax. Its chief proponent was the Ministry of Finance, which yesterday said that the government's policy remained to explain the tax better to the people.

Meanwhile, the party named August 8 as the day on which a new leader will be selected by means of a ballot of all party Diet members, probably a secret one, although this has not yet been decided.

The party feels an election is necessary to regain public confidence after criticism of the way Mr Uno was chosen by intra-party negotiation. A secret ballot would enhance the chances of younger members putting up a candidate in defiance of the leadership – although whether they will have the strength to do so is unclear.

For the moment, the two names most frequently put forward are those of Mr Kanemaru, a member of the old guard, and Mr Ryutaro Hashimoto, the party general secretary. Mr Hashimoto, 53, is young in years but he is a senior member of the same faction as Mr Kanemaru and Mr Noboru Takeshita, the former prime minister. He would, like Mr Kanamaru, be seen as a candidate of the party establishment, which was compromised by the Recruit affair.



DC-10 crash in Libya kills 78

By Victor Mallet and Lynton McLain

A KOREAN Air DC-10 crashed near the Libyan capital, Tripoli, yesterday morning and first reports said at least 78 passengers had been killed.

The airliner, travelling from Seoul to Tripoli via Bangkok and Jeddah, was carrying 199 passengers and crew when it crashed and burst into flames a mile from the airport, the South Korean embassy in Libya said.

Diplomats at the embassy said heavy morning fog might have caused the accident. In the US, McDonnell Douglas, the makers of the aircraft, said they were not aware at this stage of any failure of the Korean Air DC-10. "Early reports indicate there may have been a weather problem," said a spokesman.

Only eight days before a United Airlines DC-10 crashed at Sioux City, Iowa, after the tail engine apparently exploded, severing hydraulic lines used to guide the aircraft. That accident killed 110 people. McDonnell Douglas said yesterday in Bonn that the front fan on the engine had "torn itself loose and blew into pieces".

The manufacturer said this was probably the most severe explosion of an engine in a civil airliner.

Hospitals in Tripoli were yesterday treating dozens of wounded passengers, many of them Korean construction workers, for burns and other injuries. The plane hit cars and two houses, killing four people on the ground, the Libyan news agency JANA said.

JANA also said the pilot of a Soviet aircraft had decided not to land at Tripoli because of fog before the Korean Air crash, and had diverted to Malta instead. McDonnell Douglas said the Aeroflot airliner had aborted its landing. The DC-10 later landed short of the runway, on a house. The airliner might have experienced simultaneous engine problems, but there was no firm information about this, McDonnell Douglas said.

Mujahideen's squabbling comes to a head

Christina Lamb on why Afghan rebels are fighting each other

THE AFGHAN mujahideen are not famous for their unity. While President Najibullah in Kabul keeps his ruling People's Democratic Party (PDPA) submerged, squabbles among the seven resistance parties have become increasingly violent and public, culminating in the brutal massacre last week of 30 Jamiat mujahideen by a commander from Hezbi Islami, a rival group led by the extremist Gulbuddin Hekmatyar.

Today, the Jamiat leadership will decide how to retaliate, at a meeting they say could determine the course of the war.

The meeting comes at a sensitive time, just days before the first superpower talks on Afghanistan for 18 months. There is no doubt that reprisals will be taken, however, despite the public relations gift that would give President Najibullah and his Soviet backers.

Those killed were associates of Ahmat Shah Massoud, Jamiat's leading commander and an important player in any move on Kabul. Hezbi has often accused Massoud of expansionism and fears he is winning over some of its men as well as receiving more of the US-supplied weapons, the lion's share of which went to Hezbi until recently.

With such overt differences in their ranks, the timing of the superpower talks could hardly be worse for the mujahideen. In fact one need read press releases from the Afghan resistance to sense the growing despair among the mujahideen. Their long-exaggerated claims have strayed beyond belief.

Totalling figures issued daily by the official Afghan news agency, it seems some 50,000 government soldiers have defected from a 100,000-strong army since February, while 637 security posts out of a possible 30 have been captured around Jalalabad since March.

Little fighting

US officials talk of increased military activity but the reality is there has never been so little fighting at this time. The mujahideen are in a worse position than when the last of the 120,000 Soviet troops left in February. They have lost much of Samerkhel, the important garrison just outside Jalalabad they captured in March, and have failed to close important supply routes, such as the Kabul-Jalalabad road and the northern Salang highway to the Soviet Union.

Plans to launch a country-wide offensive on all airports with the aid of new heavy artillery from the US have been shelved, with attention instead focusing on the Hezbi-Jamiat fight that Pakistan's military intelligence have underestimated as a "tribal feud", but Western diplomats in Islamabad say will dominate the scene for the coming months.

Politically the mujahideen interim government suffered another blow to its credibility when Mullah Malang an important Kandaheri commander, publicly told his men not to fight. He explained: "If we take Kandahar there will be confusion and it will lead us nowhere but clashes."

In the midst of this is Mr Peter Tomsen, the new US envoy to the mujahideen, whose Washington-inspired hopes of being able to ride into Kabul on the back of a mujahideen tank have received a severe dent since his arrival two weeks ago.

Then he stunned reporters by talking of mujahideen military successes, seemingly unaware of how little fighting there is.

While in the Pakistani border town of Peshawar, headquarters of the resistance, Mr Tomsen was carefully steered to party stalwarts who would not rock the boat. However, in Quetta, the base for operations in the southwest, he faced a barrage of home truths.

For Mr Tomsen, who claimed the resistance were united but the regime in disarray, there was a lot to take in. Despite the joint Bush-Bhutto statement urging a political solution, conventional wisdom among mujahideen and diplomats in Islamabad is that they are being given the summer for another shot at reversing their recent battlefield fortunes.

Spilling blood

However, many mujahideen hope he will go back to Washington with the news that all is not as seems. "Giving us more time just means spilling more Afghan blood," says Asim Nasser-Zia, a spokesman for the National Islamic Front of Afghanistan.

But so far Mr Tomsen speaks only of the military option. "I'm confident of a military victory. The pressure is growing on Kabul, the regime's control is receding, the lines of communication are under increasing pressure and they cannot recruit troops. Time is on the resistance's side."

In fact, time seems to be favouring President Najibullah's regime, which now find itself in the same situation that the mujahideen were in before the Soviet withdrawal: if you don't lose you win.

The chances of a military victory for the mujahideen seem remote without a total change of strategy. Their disorganised hit-and-run tactics are totally unsuitable for a set-piece battle required to capture a well-defended town.

Analysts point out that since the Soviet departure the mujahideen have been unable to take a single security post around Kandahar airport and despite repeated attacks have failed to capture even the small town of Kalat, protected by fewer than 600 soldiers.

The lack of unity which was once a strength, because the Soviets could never focus on a centre of command, is now disastrous.

The failure to form a united command is a reflection of the political disunity. The US apparently never considered the political implications of allowing Pakistan's military intelligence (ISI) to channel far more arms and aid to some parties than others, creating obvious rivalries. The fundamentalists who were the main recipients are now becoming increasingly obstructive.

Malang says: "In Kabul now we have one mujahideen group stopping food going to the people while another is taking bribes to allow it through. If our interim government does not get its act together commanders will lose hope and disappear from the jihad [war] or even change sides."

Bank revises Thai growth upwards to 9.7 per cent

By Roger Matthews in Bangkok

THE Bank of Thailand, noted for its caution, has for the third time in six months revised upwards its forecast for the country's economic growth this year, in part because of events in China and Hong Kong.

At a time when other high-flying Asian economies are anticipating a period of consolidation, the Bank of Thailand is now looking for a 9.7 per cent increase in gross national product, having forecast first 8 per cent and then 9 per cent.

The Thai economy grew by 11.1 per cent in 1988 but with an overburdened infrastructure groaning under the strain of new investment, local economists forecast that 7-8 per cent was the maximum that could be achieved this year.

The government has already this year revised the targets set in the sixth Five Year Plan, which had aimed for annual average growth of 5 per cent in the 1987-1991 period. This was raised to 7.5 per cent, a change which acknowledged the 9.7 average for the first two years of the plan and the likelihood of a similar performance in 1989.

Although precise statistics are not yet available, the Bank of Thailand believes large amounts of capital have flowed into the country during the past two months as a direct result of the political uncertainty in China and Hong Kong. This flow has been in part responsible for the buoyancy of the small Bangkok securities exchange.

The Board of Investment has in the past nine months given approval to 60 per cent more projects than in the previous nine months. Japan and Taiwan continue to lead the foreign investors.

The 1,230 projects approved will, if completed, create an estimated 300,000 jobs. But this has to be seen within the context of the explosion of young people coming on to the labour market. Up to 1m Thais will be entering the labour force for the first time during the coming decade.

Cambodia conference seating deal

By George Graham in Paris

CAMBODIA'S rival leaders have agreed on a compromise seating plan which will allow them to take part in the international conference on the future of their country due to open in Paris on Sunday.

The four leaders have agreed to sit in a "unified and quadripartite" Cambodian delegation, placed between Brunei and Canada. Mr Hun Sen, the Cambodian prime minister, will sit on one side, with the three members of the resistance coalition next to him.

Mr Hun Sen had earlier insisted on two separate delegations, refusing any solution which placed him in the same grouping as the Khmer Rouge, the ultra-nationalist movement which ruled Cambodia for four years under Pol Pot and which belongs to the resistance coalition headed by Prince Norodom Sihanouk, the former monarch.

The two sides broke up in "total disagreement" on Tuesday, but the diplomatic efforts of France, the host of the conference, won a compromise yesterday, barring any last minute about-turns.

France and Indonesia will jointly chair the conference, to open at 3pm on Sunday in Paris, in the same building on Avenue Kleber where the Vietnam peace agreement was concluded 16 years ago.

Sri Lanka curfew

Sri Lanka imposed a nationwide 29-hour curfew from Thursday midnight as agitation mounted for withdrawal of 45,000 Indian troops from the island and both Delhi and Colombo moved to end their row over President Ranasinghe Premadasa's deadline for them to pull out, Reuter reports from Colombo.

Official sources said Mr Premadasa summoned an emergency cabinet meeting for last night. They said India had invited Foreign Minister Ranjan Wijeratne to visit Delhi today to discuss a timetable for withdrawal.

NEW ZEALAND

Wellington opts for restraint

By Terry Hall in Wellington

THE New Zealand government kept fiscal restraint clamped tightly on the economy in the budget yesterday in spite of pressure for a more expansionary stance in this, an election year.

Mr David Caygill, the Finance Minister, hopes that if strategy remains tight the budget will move into surplus by June 1991.

This year's budget deficit stood at NZ$954m (£339m) or 1.5 per cent of GDP, and for the 1989-90 year Mr Caygill is aiming for a deficit of NZ$729m. He intends to show a surplus in 1990-91.

While he intends to keep the economy tight, he published a series of reforms to take effect after the election, in a wordy set of documents. Big reforms in benefits are to be introduced from April 1, 1991 and at the same date the accident compensation scheme will be extended to cover adults under 60 incapacitated by illness.

The cleverest part of the budget was the decision to steal the opposition National Party's superannuation scheme. On the face of it this continues the 1977 Muldoon scheme under another name, but it is far less generous. By linking the scheme to the consumer price index rather than general wage orders, it will ensure that the cost of the scheme diminishes rapidly. The cost of the scheme will fall further as the age of entitlement rises to 65.

The new scheme will help savings by encouraging people to buy annuities, under the changes to the national superannuation surcharge from April 1 which makes 50 per cent of income from registered pension schemes exempt.

The budget continues the Labour government's record of taxing everything it can, often by sleight of hand, because the dates of implementing policies give one-off gains to Treasury coffers. The budget does include substantial reductions in land tax, which will be of immense benefit to the troubled commercial property sector.

Taiwan investment move

THE Taiwan government has made its first move against the island's massive underground investment industry by raiding two companies and impounding their records, officials said on Thursday, Reuter reports from Taipei.

The Taiwan High Court prosecutor's office said investigators on Wednesday questioned executives of Hua Ting Investment and an affiliated company, Kang Mao Investment, and removed their books for examination.

Investors in the companies have charged Meng Ching-hai, president of both companies, and two other executives with fraud, the office said.

The move marks the government's first concrete action since Parliament passed a new banking law on July 11. The law calls for heavy fines and long jail terms for companies which illegally take deposits.

Hundreds of thousands of panicky investors quickly staged a run on the firms in a bid to retrieve their savings. Some 200 underground companies, some worth billions of dollars, were forced to freeze all cash withdrawals.

ZIMBABWE BUDGET

Doubt on Harare deficit plan

By Tony Hawkins in Harare

THERE ARE few surprises and no significant changes in Dr Bernard Chidzero's 1989 Zimbabwe budget. The good news is that the budget deficit is projected to fall to Z$989m (£289m) in the current year to June 1990, from Z$1.1bn last year.

This brings the deficit down to 9 per cent of GDP from more than 11 per cent, but it depends on government revenue rising 22 per cent this year while spending increases only 15 per cent.

There is some scepticism about this forecast, since it assumes that revenue will rise faster despite a slow-down in the economy's growth rate to 3 per cent from more than 5 per cent last year. This appears to be based on the shaky assumption that rapid inflation will boost revenue without a matching rise in public spending.

Dr Chidzero announced some minor income tax concessions, raising the basic abatement and adjusting tax bands. As a result, the top tax rate of 60 per cent will now apply at Z$40,000 instead of Z$33,000, but this does little more than partially adjust for inflation.

These direct tax concessions are offset by higher duties on drink and tobacco, with beer rising two cents a bottle while cigarettes will cost 4c more for a packet of 20.

While the projected deficit reduction will be welcome, the underlying budget figures make gloomy reading. Subsidies remain obstinately high at Z$350m.

Total public debt rises to 79 per cent of gross domestic product; the public sector salary bill absorbs 19 per cent of GDP and interest charges 8.6 per cent. Perhaps most disturbing of all is the rise in government spending to no less than 57 per cent of GDP, while taxation absorbs 43 per cent of national product.

The pattern of public spending is little changed, with education accounting for 19 per cent of the total, followed by interest charges at 15 per cent and defence at 13.3 per cent.

While the standstill budget comes as no surprise, it will disappoint those who hoped Dr Chidzero would announce bold new policies designed to boost economic growth.

Seoul opposition feels pressure from security forces

By Maggie Ford in Seoul

PRESSURE from the security forces on the South's main opposition party, led by Mr Kim Dae Jung, reflects an increasingly robust resurgence of conservative sentiment in government circles.

Mr Kim, for years a leading dissident jailed and branded a Communist by two military regimes, heads the largest opposition party in the country's parliament, where the Government has lost its majority, and has been a prime supporter of the moves towards increased democracy.

This week, however, following the strengthening of the right wing within the Government, he was accused of having illicit contacts with President Kim Il Sung of North Korea by the Agency for National Security Planning, formerly the Korean CIA.

The accusation that he wrote to the North Korean leader follows the discovery that a member of Mr Kim's Party for Peace and Democracy illegally visited the North last year. The parliamentarian has been expelled from the party.

The accusation against Mr Kim was leaked in mysterious circumstances to a government newsagency and follows a series of other allegations suggesting that the PPD has illegal links with the North and pro communist views.

Police arrest Roman Catholic priest Nam Hak-hyon, one of 20 priests who yesterday tried to reach Panmunjom to meet a radical student who was scheduled to return home across the border village from an illegal trip to North Korea. The priests were near the northern outskirts of Seoul when they were stopped by a police roadblock, taken out of their cars and taken away in vans. Lim Su Kyong, 22, is expected to be arrested

One of the main platforms of South Korea's former authoritarian rulers was staunch anti communism in the face of the threat from the North.

The US has maintained 40,000 troops in the country since the end of the Korean war in 1953 to help deter the threat.

But since the Government of President Roh Tae Woo took power in 1988, links with communist countries have been growing.

Diplomatic relations have been established with Hungary and trade offices have been opened by the Soviet Union, Poland and Bulgaria. Trade with China has boomed.

Hardliners in the South Korean Government have expressed reservations about the new policy, especially insofar as it applies to North Korea.

Efforts to change the national security law, making contact with the North a capital offence, hava failed bnt all South Koreans who illicitly visit the North have been arrested.

They include the Rev Moon Ik Hwan, a protestant minister, Miss Lim Su Kyong, a student and Father Moon Kyu Hyon, a Catholic priest, both presently in the North, are expected to be arrested on thier return.

The security forces now appear to be focussing their attention on any links that might be found between Opposition politicians and the North.

Mr Kim, who has suffered such attention in the past, has refused to cooperate with the investigators because be believes they are trying to persecute him and his party and to interrupt the country's transition to full democracy.

He has demanded an apology from President Roh, the dismissal of the new head of the NSP appointed last week, and the punishment of those responsible for leaking the accusations, which he strongly denies.

The party is holding an indefinite protest sit-in and has called a mass public rally in ten days time to try to force the government to back down.

Mr Kim has received guarded support from media and public opinion, especially ths younger generation.

S Korean surplus falls to $2.5bn

SOUTH Korea recorded a current account snrplns of $2.5bn in the first half of 1989, less than half the figure for the comparable period last year, writes Maggie Ford.

Exports registered an average rise of 7 per cent while imports grew by 19 per cent for a trade surplus in the first six months of $2.01bn compared with $4.5bn in the same period last year.

The figures reflect Government policy to rednce the trada deficit in the face of strong pressure from the US, combined with strong domestic demand. In June the trade surplus with the US dropped from $774m a year ago to $324m this year.

Sonth Korea was able to avoid being listed under the Super 301 trade bill aftar showing evidence of its policy to boost imports and reduce export growth.

Exporting companies, especially in low tech areas such as footwear, toys and simple electronics have also been hit by the appreciation of the won and labour disputes.

For larger companies however, higher wages have increased domestic demand, especially for motor cars and other consumer goods.

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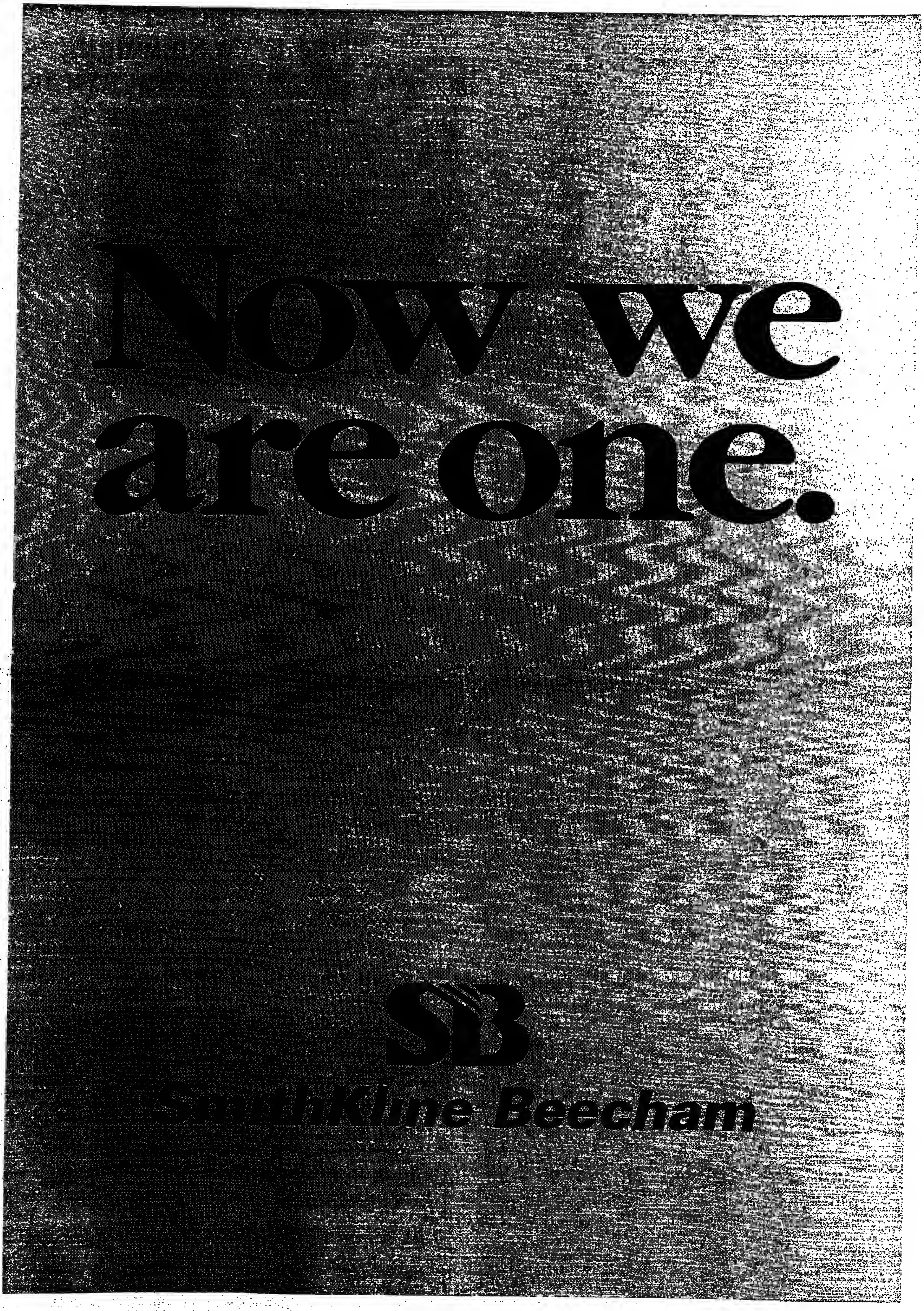

Ceiling on borrowing raised by Congress

By Peter Riddell, US Editor, in Washington

A TEMPORARY increase in the ceiling on US Government borrowings was yesterday agreed by a key House of Representatives committee to allow federal operations to continue during the summer.

The previous limit would have been exceeded during August.

Congressional leaders have been wont to use Treasury requests for an increase in the ceiling as an opportunity for broader debates on the administration's fiscal policy, but this time Democratic Party leaders do not want to rock the boat.

The House Ways and Means Committee has approved a $70bn increase in the $2.8 trillion (million million) debt ceiling until the end of October, after which it will revert to the current level.

The Senate Finance Committee had approved on Tuesday a $80bn increase. The difference is because the Treasury decided later a higher figure was needed.

Votes will take place on the floor of each chamber of Congress next week.

After the August recess, the Senate will consider a bill to raise the limit permanently to $3.1 trillion, which has already been approved by the House.

Mr Dan Rostenkowski, Democratic chairman of the Ways and Means Committee, said Congress could not adjourn at the end of next week unless it had "protected the ongoing operations of the federal government by temporarily increasing the public debt limit."

The temporary increase incorporates the Treasury's request that debt issues should be counted as their current accrual value, rather than at their face value.

This change is intended to permit the Treasury to issue zero-coupon bonds, as it has in relation to the Mexican debt agreement, without producing a sharp rise in the US borrowing figures.

Auto workers' union loses vote at Nissan US plant

By Anatole Kaletsky in New York

THE UNITED Auto Workers union suffered a humiliating defeat yesterday when it lost its first ever representation vote in a Japanese-owned US car facility by an unexpectedly wide margin.

The union's organising drive among the 2,400 hourly-paid workers at the Nissan Motors assembly plant in Smyrna, Tennessee, had drawn national attention as a potential watershed in the US labour movement's attempt to reverse its historic decline.

But the vote yesterday at Smyrna suggested that organised labour still faces long odds in trying to win support among the politically conservative and traditionally anti-union workers in the US sun-belt.

The tally in the secret ballot, conducted yesterday morning by the National Labour Relations Board, showed 711 workers in favour of joining the union and 1,622 opposed. This level of support for the UAW was even lower than the company's management had supposed and suggested.

To initiate the ballot, the UAW had to collect signatures from 30 per cent of the plant's hourly paid workforce of 2,400.

The result vote suggested that support for the UAW had risen to a mere 30.5 per cent after the union's two-month election campaign, which was bitterly contested by Nissan.

UAW organisers, who said that more workers had signed the NLRB petition than voted in favour of the union, blamed the surprising shortfall in their support on what it called the company's misrepresentation, intimidation and scare tactics.

Among the company's main weapons in the campaign was a series of videos depicting violence in past union struggles. Managers suggested that workers would lose fringe benefits and might be subjected to lay-offs if they joined the UAW.

Nissan also failed to comply with a Tennessee government order to reveal records on work-related *injuries*, for which failure it was fined $5,000.

However, management supporters said many workers had only signed the union's petition for an election under pressure from UAW organisers.

Putting a brave face on the defeat, Mr Owen Bieber, UAW president, declared that the drive to organise the Smyrna plant was "by no means at an end".

The vote had been particularly important for the UAW because it might have opened the way to unionising other Japanese-owned plants, which are expanding rapidly in the US, largely at the expense of traditional unionised plants owned by the big three Detroit-based US auto makers, General Motors, Ford and Chrysler.

US labour law would allow the UAW to demand another such election a year from now, assuming it could persuade 30 per cent of the plant's workforce to sign another NLRB petition.

Without committing the UAW to any timetable, Mr Bieber said he remained committed to work "as long as it takes" to achieve a victory against Nissan.

However, the odds against the union are likely to grow in the next few years as Nissan implements plans eventually to expand its Smyrna workforce to almost 5,000.

New recruits are likely to be screened on the basis of their attitudes to unions.

Defence debate nears climax

By Lionel Barber in Washington

THE US congressional debate over the B-2 stealth bomber has moved into a new phase, after a vote by the House of Representatives to slash funding and halt production of the radar-frustrating aircraft until the US Air Force has trimmed the $70bn programme.

House of Representatives members will soon meet their *Senate counterparts*, who have drawn up a defence bill which preserves most of the Bush administration's request for stealth funding, on condition that the bat-shaped bomber passes certain performance tests.

This conference will determine the final shape of the bill to be presented for President George Bush's signature.

The Defence Department is pinning its hopes on senators stiffening support for the stealth programme, as well as other big weapons projects.

This week, for example, the House voted to cut almost $2bn from the $4.9bn requested by the administration for the Strategic Defence Initiative (known as Star Wars); the Senate version includes $4.5bn (though a much-favoured amendment provides for no more than an inflation increase, to $4bn).

House members also unexpectedly voted to cut the administration's request for the mobile, multi-warhead MX missile by half, leaving only $600m for research and development.

Many members believe the MX vote will be reversed in conference with the Senate, if only because it runs against an agreement between Mr Bush and the legislative branch to keep MX funding intact, in order to strengthen the US bargaining position at the START arms talks with the Soviet Union.

Others point to several other House votes on Wednesday which showed efforts to kill the B-2 were overwhelmingly defeated.

Also, there was fairly strong support for the administration's argument for full funding of $4.7 bn.

The upshot is that the game is by no means lost for Mr Bush.

However, his effort to place greater emphasis on modernisation of the strategic triad of land, air and sea-based nuclear forces – at the expense of job-preserving weapons projects favoured by Congress – is getting harder and harder to pull off in an era of shrinking defence budgets.

Next year will be even tougher.

Argentine, UK meeting firmly in prospect

By Robert Graham, Latin America Editor

POSITIVE signals from indirect diplomatic contacts between Argentina and Britain have raised the firm prospect of a meeting between representatives of the two countries in the near future.

The aim of these, the first direct talks in four years, would be to *normalise* diplomatic and commercial relations, which were broken as a result of the 1982 Falklands conflict.

The initiative has come from the government of President Carlos Menem, which, since taking office this month, appears determined to tackle the issue by agreeing to put the controversial question of sovereignty to one side.

Mr Domingo Cavallo, Argentine Foreign Minister, told the Financial Times two weeks ago that Argentina was anxious to begin a new chapter with Britain. He judged the advent of a new administration in Buenos Aires as an opportune moment.

Yesterday, a Foreign Ministry official was quoted by Reuter's news agency as saying: "The Argentine government has decided to begin formal talks with Britain. It is the first time Menem has asked Cavallo to start formal contacts."

The British Government last night declined to comment on the state of contacts. However, a Foreign Office spokesman said any proposal from Argentina, which had to pass through third parties, would be studied with interest.

British diplomats are still trying to negotiate behind the scenes and are uncomfortable over the way Argentina is using the news media to push the pace.

Even so, it seems a decision has been taken to explore in depth what Argentina has to offer. The appointment this week as Foreign Secretary of Mr John Major, unexpectedly taking over from Sir Geoffrey Howe, does not alter Britain's basic position – that the question of sovereignty of the Falklands cannot be negotiated. Britain would also like to see Argentina end its state of belligerence. The position of each side is well known to the other.

One of the main stumbling blocks over a meeting is the matter of a venue. Argentina has proposed Brazil, which has been looking after its diplomatic interests in London. Britain would prefer a different country, perhaps the US, which has been a channel of communication regarding fishing in the South Atlantic.

US drug curb role

A DIRECT role for US troops in Latin America is one option in a Defence Department paper on stemming the flow of cocaine into the US from South America, AP reports from Washington. The list of scenarios, including direct action by US elite military units, will be in *the strategy* to be released on September 5 hy Mr William Bennett, co-ordinator of the US effort to halt drug smuggling.

Blood and terror stain the left's Shining Path

Robert del Quiaro examines the weaknesses and strengths of a Peruvian guerrilla movement

THE MAOIST guerrilla movement Sendero Luminoso, which has recently raised its activity to new and yet more lethal intensity, is so far from the political mainstream, even that of the communist left, that its true strength and prospects of power in Peru have been hard to discern.

Even so, there are indications that, for all its ability to operate across the country, and increasingly in the cities, Sendero is progressing as much through striking terror and through government shortcomings, as by inspiring unforced loyalty among the people.

After some 15 years of studying seminal communist texts at small universities in the central mountains of Peru and agitating among mountain peasants, the movement did not experience an armed clash until 1980.

Since then, the military has been shifting thousands of people from their villages and crofts into wretched "strategic communities" which are readily supervised and from which pressed men and women are sent on "civil defence patrols" – peasants in front, military in the rear.

Many members of Sendero are hitting back indiscriminately at groups and even whole communities of peasants believed, often on scant or tainted evidence, to be collaborating with the authorities. There have been many clear failures to take into account the fact that peasants acting for the military often do so with a gun at their backs, or at those of their hostage families. By no means all the people who have been dug out of mass graves, with placards attached to them saying they are *yanahuma* (a Quichua epithet meaning "blackheads" that Sendero reserves for supposed collaborators), were with the military by choice.

This crude reaction is killing thousands of people and forfeiting the adherence of many more.

Many highlanders are opposed to Sendero, whatever lip service they pay when the comrades are near. Both the military and Sendero have lost control, except at gunpoint, of peasants they had mobilised, as the violence takes its own momentum in sequences of bitter vendettas with villages and roaming opportunists attacking and counter-attacking for land and flocks – as well as roads and airstrips where they can levy tolls – and to settle scores.

Yet, despite its propensity for sowing confusion, the guerrilla movement – operating in a vast area where one valley may be in coherent politicised insurrection, the next a welter of clannish skirmishing – has made progress in the last year.

Sendero's strengths lie in a favourable combination of its own efforts and the deficiencies of the world it confronts. Snccessive Peruvian administrations, hohbled by a heavily indehted national economy, have made a poor fist of the military and social measures they have pitted against the movement. The racist contempt felt among white and *cholo* (half-caste) Peruvians towards indigenous highlanders is given full rein by some officials and military personnel of the under-funded and demoralised local and national administration. Efforts at winning hearts and minds have been wrecked by instances of troops off the rein of accountability and killing for the hell of it.

In many parts of Peru, meanwhile, Sendero has been quietly recruiting selected youngsters from about the age of 12 – bright kids with the susceptibility to ideals and excitement of those with nothing to lose – into its "people's schools" where small groups learn marxism, history, military tactics, survival on the run and first aid. The promises they hear are especially appealing in a country where malnutrition is rising rapidly and affecting some 5m of the total 22m people in Peru.

The movement has been hitting much more effectively at the main arteries of the economy and government. Assassination and the threat thereof are removing hundreds of local officials, especially such experts, of whom Peru has all too few, as Wilfredo Hermoza, the agronomist in charge of the Agriculture Ministry's office at Ayacucho, Sendero's core province, who was gunned down last month.

In recent weeks, the movement has hit the country's main legal export, industrial metals, by convincing or cowing miners in part of the central Andes to hold a political strike for three days. Tourism and the foreign aid presence are starting to decline under Sendero's new policy of murdering lone tourists and aid workers.

The *vulnerability of Lima*, the capital, has been underlined recently by strikes ordered by guerrillas in its food-supplying hinterland. The movement has long shown itself able to knock out Lima's electricity supply. A much stronger stranglehold will be felt if Sendero interferes decisively with the sprawling desert city's complex water supply, which stretches for hundreds of miles through tunnels and pumping stations in the Andes.

Any talks with Sendero by the government or mediators would need to overcome the problem of reaching its shadowy leaders. Also, it seems to have no links with more powerful sponsors or suppliers who might be induced to influence the movement. Its weapons are taken from the Peruvian military, its explosives from the country's many mines. Its funds come from kidnap ransoms, bank robberies and protection payments.

However, like most other armed forces in the Andean countries, Sendero has succumbed to the temptation of living off the cocaine trade. While forcing big Colombian *narcotraficantes* to pay highland Peruvian cultivators more for the coca paste they make from the raw leaf, before that goes to secret laboratories for refinement into cocaine, the guerrillas also take landing fees from traffickers who use remote airstrips to fly out the *pasta de coca*.

These dollars may mean Sendero buying more sophisticated weapons, such as anti-aircraft missiles, on the international market.

So Sendero's only foreign link is, like the movement itself, outside the law and not susceptible to persuasion by anything but the barrel of a gun.

The hard-core militants, some with the best part of 25 years in the struggle behind them and lacking any foreign bolthole to run to if defeat were imminent, can only be interested in total victory or, at least, a large role in a Peru subject to a radical redistribution of resources.

For now, Sendero is building in Peru what has long been a Latin American dream of revolution: a jacquerie in the sierra shaped by middle-class intellectuals into an alliance of communists under arms, extending to the cities through their teeming shanties – with the new fillip of a tap on the stream of cocaine-dollars.

A foreign visitor staggers away from a Sendero bus bombing

Cocom eases controls on computer sales

By George Graham in Paris

WESTERN nations have agreed on a far-reaching liberalisation of controls on shipments of personal computers to the Soviet Union and members of the Warsaw Pact.

Cocom, the Co-ordinating Committee on Multilateral Export Controls which regulates exports of militarily sensitive technology to the Eastern bloc, has agreed to relax its controls on the most widely available personal computers, including the IBM AT range and its clones.

The ruling, to take effect from August 15, will make it possible for Cocom members to export most 16-bit microcomputers to the Soviet Union and Eastern Europe, though 32-bit machines will remain under embargo.

"This should result in significant liberalisation for these desk top, over the counter, widely available machines," Mr Allan Wendt, senior representative for strategic technology policy at the US State Department, said in Paris yester day.

The US Commerce Department last week announced it was lifting restrictions on exports of these computers to other Cocom countries, since it had found that they were widely available from other sources. This decision was, however, contested by Mr Richard Cheney, the Defence Secretary, who said that the decision would give the Soviet Union significant new capabilities.

Some industry analysts, however, believe that the relaxation of controls on the AT range, whose technology is now around four years old, will offer little additional opportunity for US computer manufacturers to boost their exports. Computers based on the 386 chip, including those made by Compaq and IBM, as well as most of the Macintosh range, will remain under embargo.

Some European countries had pressed for a much greater liberalisation, and the final Cocom decision represents a compromise with the tougher US position.

Richard Cheney: decision will boost Soviet capability

Mr Wendt said that the US wanted "to control only what needs to be controlled on strategic grounds, no more and no less," but that it was determined to protect its security by maintaining the West's technological advantage over the Warsaw Pact.

He added, however, that the process of updating the control lists was vital if Cocom's credibility were to be maintained.

"If the lists are bloated with outdated items, then you don't get effective enforcement," Mr Wendt said.

The US would also continue its efforts to liberalise exports of sensitive technology to other Western nations, he said, with the aim of phasing out almost all licensing requirements for dual use products, with both civilian and military applications.

Many countries, such as the UK, have a broad system of general export licences which places little or no restriction on shipments to other Cocom member countries, but the US still requires specific licences.

Mr Wendt said Cocom members were agreed that earlier liberalisation of controls on technology exports to China should not be reversed in the light of the recent repression by the government of the student demonstrations in Peking, but that there should be no further liberalisation for the time being.

Gatt agrees phased plan on liberalisation

By William Dullforce in Geneva

THE 96 member countries of the General Agreement on Tariffs and Trade yesterday backed a three-phase plan designed to ensure the success of the Uruguay Round of trade-liberalising talks.

They also accepted an invitation from the European Community to hold the final meeting of trade ministers in Brussels between November 26 and December 8, 1990.

By taking these decisions in the trade negotiations committee (TNC), the Round's governing body, governments had reached the point of no return in the most ambitious attempt so far to reinforce and extend the multilateral trading system, Mr Arthur Dunkel, Gatt's Director General, said. "We are now doomed to succeed," he added.

Doubts concerning the possible failure of the talks has been widespread since trade ministers encountered an impasse over farm trade reform at their mid-term review of the scheduled four-year Round in Montreal in December.

Mr Warren Lavorel, US trade talks coordinator, yesterday sought to lay to rest doubts concerning the Bush Administration's commitment to the Round, by underlining in the TNC the administration's intention of seeking solutions to its most vexing trade problems through the Round.

Confidence in the outcome started to revive in the last few weeks with countries submitting detailed proposals for reforms in key areas such as agricultural trade, subsidies, intellectual property rights, textiles and safeguards - temporary protective measures allowed under Gatt against sudden surges in imports.

However, under Mr Dunkel's plan, governments will now be expected to stake out their positions in all 15 negotiating groups between the resumption of the talks in September and the end of the year.

Japan has sent invitations for an informal meeting of trade ministers from some 20 main trading nations in Tokyo on November 16 and 17. This is seen as an opportunity for giving further political impetus to the talks.

The period between January and July or August next year will be devoted to deal making in the groups and to the writing of draft agreements, leaving the time from September to the trade ministers' meeting in Brussels for settling outstanding difficulties and putting agreements into legal shape for implementation.

Dunkel: "We are now doomed to succeed"

A change of mood for purely practical reasons

William Dullforce on the Gatt nations' steady progress towards the liberalisation of world trade

PROSPECTS of bringing the multilateral talks on the liberalisation of world trade to a successful conclusion by the end of 1990 have clearly improved.

Yesterday's commitment by the Uruguay Round trade negotiations committee to a date for the final meeting of trade ministers, and its acceptance of a three-phase plan for reaching that rendezvous with a package of agreements, reflects a change of mood from the gloom earlier this year.

The setback over how to define the objectives for farm trade reform at the ministers' mid-term review of the Round in Montreal in December, which threatened to stall the whole process, was resolved in April but several developments since then allowed negotiators to go into their summer recess yesterday in a much more spirited frame of mind.

Among these developments has been the Bush Administration's decision, after some initial delay and considerable ambiguity over its intentions, to reassert US commitment to finding multilateral solutions to trade problems and in particular to devote energy and resources to the General Agreement on Tariffs and Trade's Uruguay Round.

Second has been the European Commission's drive to sort out differences among the Community's 12 members, so that it can submit detailed proposals to the negotiating groups in Geneva. Its blueprint for the reform of world trade in textiles and clothing, tabled last week, is an instance of the effort being made in Brussels.

The two biggest trading blocs have strictly practical reasons for accelerating the trade talks. The Bush administration has to notify Congress by March, 1991 of success in the Uruguay Round. Otherwise it would have to seek a three-year extension of its negotiating authority, which Congress is unlikely to accord.

Among the spate of proposals to the 15 negotiating groups over the past few weeks have been several well thought-out contributions from developing countries. The Third World is no longer acting as a monolithic bloc; countries, such as Korea, Mexico and Chile, are more carefully defining their individual interests and acting to win advantage in them.

The result has been the emergence among Gatt's 96 members of a core of 30-40 countries, bridging the old north-south divide. Between them they account for some 85 per cent of world trade. They have diverging trade interests but are finding they have a common interest in securing further trade liberalisation.

Scepticism about Washington's intentions remains strong within this group. Many governments still see unilateral US trade action based on the Super 301 clause of its new Trade Act as a major menace to the Round. Japan, Brazil and India have refused to enter bilateral talks called by the US under 301 and under the threat of retaliatory US action.

In the agriculture talks, Washington and Brussels are promoting different approaches, the US having tabled a plan for converting import barriers into tariffs and then reducing them, while the EC wants liberalisation based on an aggregate measure for all farm supports. The Cairns group of 13 farm-exporting countries is working on a proposal to submit in September.

Even in the talks on intellectual property, the filibustering has stopped with the tabling by India of a cogent statement of its opposition to the big trading powers' thrust for stricter rules. All in all, therefore, the more hopeful climate prevailing in Geneva has some grounds in reality.

Hitachi to sell chip technology to South Korean group

By Stefan Wagstyl in Tokyo

HITACHI, the Japanese electronics group, is to sell semiconductor manufacturing technology to Gold Star, the South Korean group, in the first technology transfer of its kind between a Japanese semiconductor maker and South Korea.

Under the agreement Hitachi will show Gold Star how it makes one megabit dynamic random access memory (DRAM) chips. Gold Star will use the technology to help develop its own 4 megabit and 16 megabit DRAMs – the new two generations of chips, which Japanese companies themselves have yet to start mass-producing.

The deal highlights the increasing ability and willingness of Japanese groups to sell technology overseas. Once condemned as industrial copy cats, they have in recent years developed ideas ahead of rivals in other countries.

They are exporting these ideas for three main reasons: to gain lucrative royalties; to cement trading relationships and to ease international trade disputes, especially in the case of technology transferred to the US.

"In years past, Japanese companies began with foreign technologies and improved them; today they compete quite effectively with home-grown know-how," said a report published last year by the Office of Technology Assessment of the US Congress, which was examining advances in superconductors. Japanese and US scientists argue over which country is ahead in a particular scientific field – but broadly speaking Japan has invested heavily in a few narrow areas – including superconductivity – while the US has the greater all-round skills.

However, there is no doubt that in product development, particularly in the all-important electronics industry, Japan has the upper hand.

In the mid-1960s just 2 per cent of all US patents were issued to Japanese. Last year it was 20 per cent. The usefulness of Japanese patents has also multiplied – as measured by the number of Japanese patents which are cited in later patent applications.

As a result of improving technology, Japan's deficit in technology trade – royalties, licences and related fees – has been closing. Imports have risen from $2.7bn in 1970 to $3bn in 1985, in constant prices according to US government figures. Exports have grown from $370m to $900m over the same years. The Economic Research Institute of C Itoh, the Japanese trading house, has forecast that by the mid-1990s the gap could disappear.

So far, most Japanese technology transfers have been to the US and to Europe, often by companies wanting to avoid being accused of running technological monopolies. This is particularly true in semiconductors, where the US accused Japanese companies of trying to drive American groups out of business by unfair means. This dispute led to the 1986 US Japan Semiconductor Agreement, which was a step towards creating managed trade in semiconductors. In order to ease tensions, Japanese companies have developed close links on technology sharing with American companies – Toshiba with Motorola, Hitachi with Texas Instruments, and Matsushita Electric with Intel. The last two deals were signed this year.

Meanwhile, South Korea is increasingly anxious to acquire first-rate technology from industrialised countries – and those countries are willing to provide this in return for better access to the South Korean market.

Memories of the Japanese occupation have persuaded some South Koreans to avoid dealing with Japan. But most companies have long put their business interests first. These groups have often recruited Japanese engineers for post-retirement jobs, or for weekend moonlighting contracts. But increasingly they have upgraded their contacts to full-scale company-to-company technology transfers. The Japanese Ministry for International Trade and Industry says that in 1987 (the last year for which figures are available) 816 cases, worth Y27.5bn, of technology transfers to South Korea were second in value only to the US, which bought Y65.9bn of Japanese technology.

Recent cases include the sale of manufacturing technology for optical compact disc pickups by Mitsubishi Electric to Goldstar Electric; Sanyo Electric's sharing of information on plain paper copiers with Samsung Electronics and the sale of welding-robot technology by Fanuc to Daewoo Heavy Industries.

Plan to charge employers for graduate recruits

By David Thomas, Education Correspondent

SENIOR university administrators are to consider a plan to cash in on the tighter graduate labour market by charging employers for each student they recruit.

The proposal, put forward by Mr John Lauwerys, registrar at Royal Holloway and Bedford College, London University, is being fiercely resisted by leading employers.

Some employers say privately that adoption of Mr Lauwerys's plan could lead to a breakdown in university-employer relations followed by companies withdrawing financial support such as sponsorships of academic posts.

However, there is a widespread expectation thet universities may try to extend the more limited charges levied on employers for events such as recruitment fairs.

These issues are being debated within British universities just as most European countries are preparing for a much tighter graduate labour market in the face of the Europe-wide decline in the numbers of young people.

Mr Lanwerys said his proposal was designed to recover the cost from employers of university careers services, which were equivalent to commercial employment agencies. "It seems odd that wa should be meeting the cost of graduate recruitment services from our own resources," he said.

London University's careers service costs almost £1m a year and caters for about 12,000 students. This would imply a charge to employers of almost £100 for each student recruited, although the cost could be considerably higher if certain groups such as medical students were excluded.

Mr Lanwerys' plan, which has already been discussed by registrars of universities in the south, is due to be debated at a national conference of registrars in September. He said he would then press it on university vice-chancellors.

However, the Association of Graduate Recruiters, representing over 500 mainly large employers, has prepared a paper attacking the plan as impractical, because it could not be extanded to small employers, the public sector or employers recruiting graduates without using careers services.

Ms Helen Perkins, chairman of the association and head of management development at Price Waterhouse, said: "the big employers are not prepared to be treated as a cash cow."

Doubts about the scheme's practicality and abont its impact on the advice offered by careers officers to students are shared by the Association of Graduate Careers Advisory Services, representing university and polytechnic careers officers.

However, Ms Pat Raderecht, chairman of the association and Bristol University's careers officer, said she expected to see a growth in careers' officers charging employers for services such as consultancy.

Mr Brian Steptoe, London University's careers officer, is planning to seek university approval for a sliding scale of charges for consultancy services offered to companies, possibly to be introduced in October 1990.

Student recruitment 'setback'

By David Thomas

UNIVERSITY vice chancellors yesterday accused the Government of reneging on an understanding that there would be no cash limits on a new system of funding higher education designed to increase the number of students.

Under this system, unveiled in April, pnblicly funded undergraduate fees are to more than double from October 1990 to £1,675 a year to encourage colleges to recruit extra students.

Mr Kenneth Baker, the then Education Secretary, said when announcing the scheme that the Treasury had agreed not to put a limit on additional fee income if colleges were successful in recruiting more students.

However, university vice chancellors now understand tbat their central grant for 1990-91 will be cut hy an amount to reflect the extra fee income derived from all students, including any additional ones recruited because of the fee increase. This would ensure that the new funding mechanism has a neutral impact on university income.

Sir Edward Parkes, chairman of the Committee of Vice Chancellors and Principals, has written to the Government demanding clarification of its proposals. The letter warns that unless the Government changes tack there will be no incentiva for universities to recruit extra students.

Vice chancellors believe the uncertainty could affect admissions decisions for this October, since some universities were intending to recruit more students this year on the understanding that they would benefit from the extra fees next year.

Sir John Kingman, vice chancellor of Bristol University, said: "The question is whether we can trust the Government."

Vice chancellors regard the issue as a test case of whether the Government is prepared to underpin its vision of significantly expanding higher education with funds.

Dr Clark Brundin, the vice chancellor of Warwick University, who last night chaired a meeting of the financial advisory group of the vice chancellors' committee, said the matter could pose "a serious setback" to hopes of increasing the university population.

He said: "Unless the Government sends out much clearer signals that there are additional funds going into the system, the goal of significantly increasing student numbers is never going to be achieved."

● Fifteen universities and polytechnics were yesterday awarded up to £1m each, over five years, to help develop enterprise skills among students in the second round of funding under the Government's Enterprise in Higher Education scheme.

Employers overlook older graduates

By David Thomas

MOST PRIVATE sector employers show little interest in older graduates, even though their numbers among new graduates are increasing, a report published yesterday has found.

A survey of 117 graduate recruiters also revealed that public sector employers tended to be more open-minded about the recruitment of older gradnates than their private sector counterparts.

The report was written by Miss Barbara Graham, of Strathclyde University's careers service, for the Association of Graduate Careers Advisory Services, representing university and polytechnic careers officers.

Some big employers have recently launched attempts to recruit older graduates, such as the programme announced this week hy Marks and Spencer. But yesterday's report found very few employers gave specific encouragement to older graduates.

There was particular resistance to recruiting graduates over 30.

The report recommends ways in which employers might attract older graduates. These inclnde tailor-made training and career development opportunities for mature graduate entrants, selection methods free of age bias and flexible working arrangements.

It points to evidence that mature graduates tend to display qualities such as loyalty, emotional stability and effective time management. New university graduates in the 30 to 34 age group recorded the highest percentage of first class honours degrees.

Older Graduates and Employment. Central Services Unit, Crawford House, Precinct Centre, Manchester M13 9EP. £12.50.

Majority of poll tax forms 'may be illegal'

By Richard Evans

UP TO three quarters of the poll tax registration forms sent out by local authorities might be flawed through seeking an excessive amount of information, according to local government and civil liberties leaders.

The Data Protection Registrar, having discovered a number of community charge, or poll tax, forms have contravened the Data Protection Act, is conducting a nationwide examination of forms to assess the seriousness of the situation.

Local authority leaders believe that the impact on the timetable for collection of the tax and on its future administration could be chaotic, and they are urging Mr Chris Patten, the new Environment Secretary, to take action urgently to clarify the situation.

As an interim measure the Labour-dominated Association of London Authorities and Liberty (formerly the National Council for Civil Liberties) yesterday published jointly a detailed guide to the registration forms and the rights of individuals.

Two other guides will follow in the next few weeks giving guidance on the poll tax and its collection to councillors and local anthority officers.

Mrs Margaret Hodge, leader of the ALA, said at a London press conference yesterday that it was "an appalling indictment" of tbe Government that it was being left to others to clarify the situation. "This is a role that Ministers ought to be performing," sha said.

The leaflet published yesterday, which will be distributed through local councils, seeks to expose the threat to individual civil liberties contained in some of the forms and explains the rights people have when giving information.

One difficulty has been that it was left to individnal authorities to decide on the wording of their registration forms. Those that have required simply the details of all residents over 18 in a househobld have contravened no law. Tha problem has arisen from those councils – probably a majority – that have asked for additional information.

For example, some councils have asked for ratepayers' previous addresses, proposed methods of payment, and any possible business use of a property.

Trafford Council, in Greater Manchester, was criticised for asking about relationships between people living in the same property. Snbsequently the authority agreed to erase the material from its computer system and gave an undertaking not to use the information for any other purpose.

Mrs Hodge said she believed the invasion of privacy issue was one reason for the poor response in London to poll tax registration. She estimated that on average there would be a registration of 80 per cent to 85 per cent, which would increase the burden on those that had registered.

Lonrho must carry contempt case costs

LONRHO and the Observer have been instructed to pay their own costs – estimated at £1m – arising out of the House of Lords inquiry which acquitted them of contempt for the publication of details of the secret DTI report on the Harrods takeover.

At the end of tha inquiry last month, three Law Lords ruled unanimously that no case of contempt had been made out.

But the Lords said yesterday that publication of the special edition of the newspaper on March 30 while Lonrho's appeal to the Lords over the takeover report was pending, had called for "full inquiry" into whether those responsible had committed contempt of the House.

It would, therefore, be "inappropriate" for Lonrho's costs to be paid out of public funds.

Lord Bridge, sitting with Lord Goff and Lord Jauncey, said it would be "quite unconstitutional" for Lonrho and the Observer to recover payment of their costs from the Treasury.

At tha end of the contempt proceedings on June 12, the Observer's editor, Mr Donald Trelford, described the hearing as "a wasta of time and money."

"The costs are nearly £1m and now we find that no case has been made out. This is hardly justice," be said.

The special edition, of which 200,000 copies were sold, contained verbatim extracts from the Trade Department report on the takeover of the House of Fraser stores group in 1985 by the Egyptian Fayed brothers. Lonrho was the loser in the takeover battle.

Tbe contempt charges against Lonrbo, four of its directors (including Mr Tiny Rowland, the chief executive), the Observer, its editor and two Lonrho lawyers, were instigated by five other Law Lords who subsequently heard and dismissed Lonrho's appeal against the decision by Lord Young, then Trade Secretary, to defer publication of the report pending investigations by the Serious Fraud Office.

The three Lords who heard the contempt allegations said yesterday that the inference to ba drawn from the avidence was that the Lonrho directors and Mr Trelford "were prepared to take any risk" of the publication being condemned as contemptuous.

To achieve their objective of publicising material which was seen as vindication of the Lonrho campaign against the Fayeds, they made this decision on the basis that the risk of imprisonmant was remote and that any financial penalty imposed would be "a price worth paying".

At the core of the contempt allegations was that the special edition amounted to "trial-by-newspaper." Lonrho and its directors took the law into their own hands.

The possibility that a professional jndge would be influenced by anything he had read about the issues in a case he had to try was "remote" though, said the Law Lords.

The editorial comment in the Observer – "however intemperate the language" – would not have deterred Lord Young from his opposition to Lonrho's appeal, nor would it have been capable of exerting any influence on the Lords who heard the appeal.

It would be a novel extension of the law of contempt – which was "fraught with difficulties and uncertainties" – to hold that direct action to secure a remedy which was being sought in court proceedings, amounted to contempt of those proceedings.

The Law Lords concluded that the Observer special edition created no risk of impediment or prejudice to the proceedings in Lonrho's appeal.

BT and Mitel set to increase sales

By Hugo Dixon

British Telecom and Mitel, its Canadian manufacturing subsidiary, look set to increase their share of the UK market for computerised telephone switchboards, following a relaxation of regulations announced yesterday by the Department of Trade and Industry.

When BT acquired 51 per cent of Mitel in 1985 there were fears it would abuse its dominant position to drive other suppliers of switchboards out of the market.

The Government therefore attached stringent conditions to the acquisition, which prevented BT from combining its sales force with Mitel and limiting the number of Mitel switchboards it could sell at 1985 levels.

These conditions hampered BT's sales effort when the market for telecommunications equipment was being liberalised. As a result BT has lost market share to powerful groups such as GEC-Plessey Telecommunications, Cable and Wireless and Siemens of West Germany.

Moreover, the Mitel purchase has been a poor investment. Intense competition in the North American market has meant that the Canadian company has only recently returned to profit after years of losses.

These factors hava convinced the Government that BT should be released from the most important Mitel conditions – those limiting sales levels and stopping joint sales efforts – but other conditions, for example that preventing cross subsidies, will remain.

Onshore oil licensing round opens

By Steven Butler

THE Government yesterday launched the third licensing round for onshore petroleum exploration, inviting applications to be submitted in October.

Applications will be accepted for an unlimited number of unlicensed 10 km by 10 km square blocks and allow the recipient to carry out seismic survey and deep drilling work over a non-extendible six-year term.

However, the licences do not confer right of entry to land and all exploration work must obtain necessary consent from mineral planning authorities.

This has proved a complicating factor in a number of areas, where residents have launched vigorous campaigns opposing exploration and development work, sometimes resulting in higher costs.

With the exception of the Wytch Farm oilfield, in Dorset, onshore finds have tended to be much smaller than offshore fields. However, the lower costs of operating onshore, compared to offshore, can still make the finds profitable to develop.

Licences are awarded on a competitive basis according to proposals for seismic exploration and drilling. In addition, holders of old-style exploration licences will be given the opportunity to convert them to new exploration licences, which confer rights to engage in deep drilling.

If oil and gas are discovered operators must subsequently apply for an appraisal licence, and if warranted, would need to obtain permission for development. This is in addition to satisfying local authorities over planning legislation.

The Government recently completed the 11th round of offshore licence awards following intense interest from the international oil industry.

The onshore round is unlikely to attract the same degree of attention, and smaller companies are likely to play a more prominent role.

Macarthy loses legal fight with rival

By Raymond Hughes, Law Courts Correspondent

MACARTHY, the wholesale and retail chemist group, has failed to get a temporary High Court order stopping its rival Unichem, the co-operative pharmaceuticals distributor which is to be floated on the Stock Exchange in the middle of next year, going ahead with its latest customer incentive scheme.

The scheme includes offering new customers £1 shares which Unichem estimates will be worth about £22 after flotation.

Macarthy complained the scheme would have drastic consequences for Macarthy's continuing profitability and might destroy its remaining wholesale business.

Mr Justice Aldous accepted yesterday that refusal of a temporary injunction might well cause substantial damage to Macarthy. But, he said, equivalent damage would be caused to Unichem if an order were granted.

The solution, the judge said, was to have an early trial of the action in which Macarthy alleges that Unichem's scheme is anti-competitive and infringes Article 85 of the Treaty of Rome.

He said that damages would then be more easily assessable. The trial judge would be able to look at a few months' trading by the two companies after the introduction of the new proposals, which would help them decide their effect on Macarthy and whether they breached Article 85.

Earlier customer incentives planned by Unichem were outlawed in May by a Monopolies and Mergers Commission ruling that they amounted to an anti-competitive practice against the public interest.

Macarthy claimed in court that the new proposals, which passed the scrutiny of the Trade Department last month, were designed not only to attract more retailers but, by increasing discount incentives, to increase retailers' business with Unichem, reducing the business done with Macarthy.

Mr Nicholas Ward, chairman and chief executive of Macarthy, said yesterday: "We have achieved the bringing forward of a speedy trial."

County NatWest control strengthened

By Richard Waters

NATIONAL Westminster Bank has moved to strengthen the board of the direct holding company of County NatWest, which has suffered severe criticism in the last week over its handling of Blue Arrow's £837m rights issue.

Two further directors have been appointed to the board of NatWest Investment Bank – Mr John Chiene, chairman and chief executive of the bank's securities arm, and Mr Donald Macpherson, the head of its corporate advisory division.

The appointments appear to answer criticisms that NatWest did not have people with specialist skills at senior enough levels within the bank.

NWIB's board was strengthened earlier this year with the appointment of three NatWest non-executive directors and one executive director from County.

Mr Macpherson took on his current role only on Tuesday after his predecessor, Mr David Reed, had resigned over his involvement in the Blue Arrow affair. He is a former senior partner of Fielding Newson-Smith, a broking firm acquired by the bank prior to Big Bang.

Mr Chiene was formerly in charge of Wood Mackenzie, another broking firm acquired by the bank, this time in an attempt to strengthen its flagging securities activities.

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UK NEWS

Change to four lanes 'could ease M25 congestion'

By Kevin Brown, Transport Correspondent

ROAD MARKINGS on the busiest parts of the M25 London orbital motorway should be changed from three standard-size lanes to four narrow ones to ease congestion, an independent rsport suggested yesterday.

The report, commissioned from the transport consultants Rendel Palmer & Tritton by the Transport Department, says the M25 has fulfilled its purpose of taking traffic away from central London and surrounding towns and villages.

However, "unprecedented sustained economic growth" has also led to a rapid rise in vehicles using the road, which could not have been foreseen when it was dasigned and built.

The report says most of the M25 will bave to be widened to four standard lanes within ten years to deal with congestion. Narrow lanes would help solve the immediate problems in the worst affected sections, some of which are handling double their design capacity of about 70,000 vehicles per day.

The offside, or "fast," lane would be for cars only, and there would be a 50mph limit on the four-lane sections. The report says a review of orbital roads inside and outside the M25 should be launched to improve alternative rontes, and calls for a range of traffic msnagement measures to speed vehicle flows.

The report rules out radical solutions such as increasing the motorway to five lanes in each direction, and a second motorway parallel to or above the existing route. The double decking of the M25 was proposed last year by Costain, the construction group, as one of a number of long-term answers to congestion. The report says this would be "especially costly, environmentally obtrusive, and disruptive to traffic on the existing motorway during construction."

The Government has already announced plans to expand most of the motorway to four standard lanes in the long term, although it is not clear when this work will be completed.

However, the Government's plans contrast with another recent report by the Institution of Civil Engineers, which concluded that traffic congestion is now so bad that it cannot be solved by road building.

The institution said there was "no possibility" of solving congestion because of the 10- to 15-year lead time for transport infrastructure projects.

The most that could be hoped for was that the level of congestion could be contained, and then only if transport planning was properly co-ordinated to make the best use of buses and trains.

M25 Review; Summary Report; HMSO; £5.70.

Docklands yuppies are beached for the duration

Andrew Taylor on how the decline in property values has devalued what seemed sound investments

THE MAN from the local authority called as we were being shown around the flat overlooking part of the former India Millwall Docks. The wharves which once housed cargo vessels from all over the world now provide moorings for the rich, and would-be rich, to tether their boats.

The rates on the flat, like the mortgage, had not been paid and the man from Tower Hamlets council was checking to see the property really was empty. The one-bedroom flat had been bought a year ago for almost £93,000 by a "young man employed in the City," according to the estate agent trying to sell the flat, which had been repossessed by a building society.

It is currently on the market for just over £91,000 but is likely to go for less. The original buyer, after solicitors and estate agents fees, is likely to have lost at least £5,000, unless the society finishes by footing the bill.

Stories like this are common in London's former Docklands. Two years ago this was one of Britain's fastest growing housing markets — but it was stopped dead in its tracks by the stock market collapse in October 1987.

On Wednesday Kentish Property Group, heavily involved in residential development in Docklands, sought protection in the courts from its creditors by applying for its affairs to be run by an administrator under the 1986 Insolvency Act. The group's shares were suspended last week at 61p, valuing the company at just over £10m. The shares peaked at 342p five days before the stock market crashed.

Part of the strength of the Docklands market, up to that time, was the perception that City stockbrokers and currency dealers, their pockets stuffed with cash, were flocking to buy cbeaply priced homes on the Isle of Dogs to sell at a big profit as house prices rose sharply.

The Docklands housing market therefore was one of the first to suffer when sbare prices fell sharply and securities companies started to layoff City employees. House prices in other parts of London and south-east England continued to rise for almost another 12 months after the crash.

Rises in mortgage interest rates and the ending last summer of multiple tax relief on single properties added further to the problems facing the Docklands housing market.

Mr Peter Clapshaw, chairman of Clapshaws, a national firm of estate agents, which started life in Docklands says: "Prices have fallen by between 15 per cent and 30 per cent during the past 12 months.

"Agents in this area in a reasonable market would expect to achieve 16 to 20 sales a month; up to 25 a month in a very good market. Some estate agents are now lucky if they are making one sale a week."

Kentish Property has debts of about £65m including a £26m loan from Halifax Building Society to davelop Burrells Wharf, a partly completed 343-flat project plus shops, offices and leisure centre on the Isle of Dogs. Its last balance sheet showed shareholders funds of £12m.

One of the company's most spectacular Dockland developments was Cascades a large appartment block on the Isle of Dogs. Before the stock market crash some of the flats in Cascades had been sold several times over before they were completed and the first owner moved in. The flats were not to live in but to sell profitably.

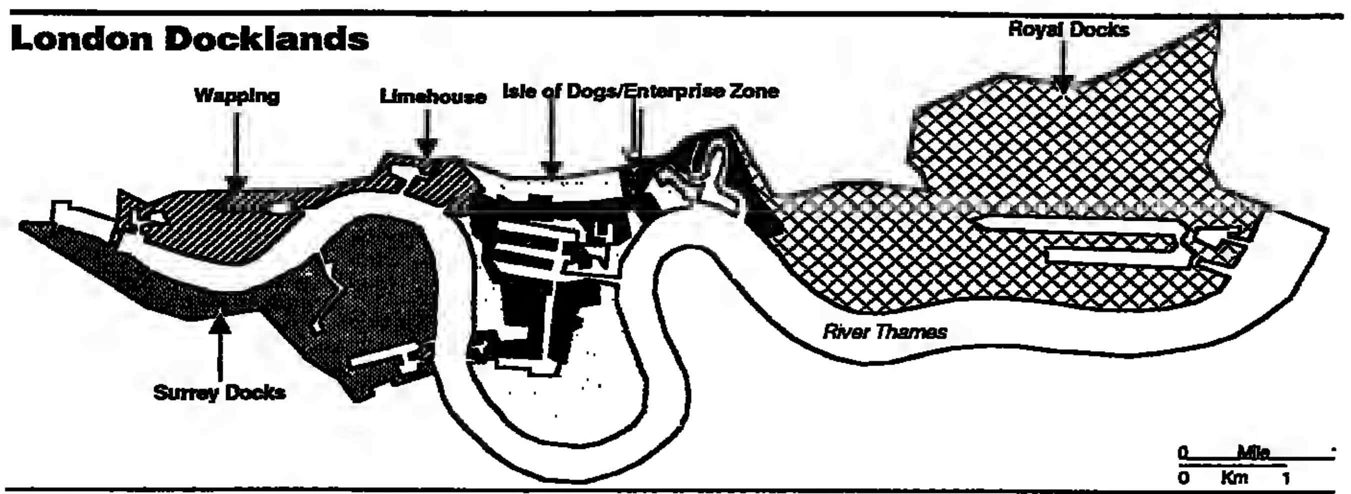
When the bousing market fell, some Docklands buyers preferred to forego deposits of 10 per cent rather than complete purchases and be faced with the problems of finding a buyer. Some probably could not afford the property in the first place but had hoped to make a quick resale profit.

"The problem witb Docklands was that it became terribly over-heated by all the talk of yuppies and Porsche-driving City brokers bidding up prices which at one stage were approaching those in Chelsea and Knightsbridge," says Mr Clapshaw.

"Prices and sales will recover. There are still a lot of attractions to living bere. It is still quicker to get to the City from Docklands than from e comparable distance to the west of London."

According to the London Docklands Development Corporation, the proportion of privately owned bomes in Docklands since 1981 has risen from 5 per cent to more 44 per cent due to a combination of new development, flat conversions and council bouse sales under the right-to-buy legislation.

This has not proved popular with all local residents, judged by graffiti such as "Yuppies Out" and "Class War" which still appear on walls and buildings. Perhaps most sad of all is the former docker who bates the massive redevelopment taking place in the docks but is unable to to find a buyer for his home so be can move away.



UK NEWS

Poison food cases prompt wider legislation

GAPS in British legislation designed to protect consumers from unfit and contaminated food are to be filled by new legislation which will be introduced as soon as parliamentary time allows, writes Christopher Parkes, in London.

Plans unveiled in a White Paper (policy document) published yesterday, include the compulsory registration of premises selling food and increased powers for trading standards and health officers.

Plans for new legislation have been pulled together in the past few months following a series of food poisoning outbreaks caused by various salmonella organisms, and the release of official figures which show the number of incidents increasing rapidly.

Broadly, the proposals appear designed to plug gaps in existing laws to ensure that the entire food chain is covered by legislative controls. The main impact of the measures will be to impose enforceable controls on food before it reaches the shops and to allow suspect supplies to be withheld by trading standards or environmental health officers while investigations take place.

Food premises will have to be registered in future to help local authorities fulfil their enforcement role. Laws will also be adapted to allow officials to shut shops and cafés that present a health risk more quickly than at present.

Ministers will be given powers to issue emergency orders to deal with potentially serious problems such as accidental contamination, Mr John Gummer, Minister of Agriculture told the House of Commons yesterday.

Health officials will be able to control contaminants and residues which may arise from bad practises on the farm or in food manufacture. The legislation will also enable ministers to establish training requirements for people handling food commercially.

This might greatly increase the cost burden on manufacturers, distributors and retailers. It could also complicate their already substantial difficulties in finding and keeping staff.

Consumer representatives and health and trading standards officials gave a mostly guarded welcome to the food proposals. However, the Consumers' Association described the document as vsrbose, self-satisfied and full of half-truths.

"You would never believe that the Government had failed time and again to tackle food crises swiftly and effectively," eaid Mr Derek Prentice, head of campaigning.

Lord Ezra, president of the Institute of Trading Standards Administration, said the document was a step in the right direction, but the Government'e resolve would be measured according to its willingness to make available funds for local authorities' enforcement efforts.

Analysis, Page 11

Britons simmer through long, hot summer

Tempers are wearing thin, but sales are building up, reports **Christopher Parkes**

SUMMER shortages, the predictable results of Britain's unpredictable weather, are beginning to bite. Cows are short of grass; soft drinks canners are filling three shifts a day and still not meeting demand; the retail group Marks and Spencer has sold out of flimsy summer gear; and the people are running out of patience.

Relate, the 1980s version of the Marriage Guidance Council, reports a sharp drop in tolerance levels and a 15 per cent increase in inquiries from distraught partners at a time when business is normally quietening down before the summer break.

The explosive combination of high temperatures and frustration among strike-hit commuters may, however, be defused by offering the wild-eyed fiend arriving home from work "a little space and a long, cool drink," Relate advises.

The hottest summer since 1976 has brought out aphids and statistics in record numbers.

ICI, Britain's biggest chemicals group, has pumped up pesticide output four-fold and still cannot cope. Coca-Cola & Schweppes Beverages says demand in the past two months has been 20 per cent higher than forecasts which had already allowed for increases of up to 15 per cent on last year.

Like Britvic, its arch-competitor, it has been shipping extra gallons from continental Europe. Perrier, the mineral water bottler, reports some l'eaucal shortages in the UK, but claims that Source Perrier, fount of all supplies, flows undiminished.

Children on a London street take advantage of a chance to cool down at a public water hydrant

Birds Eye Wall's, ice cream market leader, is too hot and bothered to count the latest tally, but by the end of June sales were already 20 per cent ahead of target.

Like its rival, Lyons Maid, the Allied-Lyons subsidiary, it reports even greater sales of "impulse" ices – hand-held products which children tend to regard as skin treatments rather than foodstuffs. Lyons says sales of ices in the week of July 14 were 94 per cent higher than in the same week last year.

The Allied part of the group, one of the biggest brewers in the country, claims beer sales only 7 to 9 per cent ahead of last year and Whitbread reports a 5 per cent increase in the past two weeks. Pubs, however, are packed, and while drinkers may be increasing their alcohol intake only modestly, strong sales of low-alcohol beers and soft drinks are being recorded everywhere.

Farmers, renowned for their sunny optimism, are starting to feed cattle on last year's left-over silage as pastures wither, and are concerned that they may have to let them eat cake and other expensive manufactured feed.

Some spring barley crops have been ploughed into the fields because lack of moisture led to poor germination, but there is consolation to be found in the higher prices already being offered by maltsters fretting about shortages.

Plum lovers should be warned that the crop is sparse and although apple orchards are bowed under a profusion of fruit, there is concern over the risk of scald, the apple's equivalent of sunburn.

Holidaymakers, already deterred from travelling abroad by airport delays, have been further encouraged by the fine weather to cultivate their tans in the UK. The English Tourist Board reckons July bookings could be 30 per cent up on last year.

Wherever they have been in search of relaxation, trippers with long memories may return in a state of some tension, concerned about the condition of their homes. Insurance claims paid to repair damage to houses caused by subsidence rose from 4,000 in 1975 to 21,000 in 1976. Houses underpinned then, or those built since to tighter regulations, should present no problems. In any case, the Building Research Establishment says, conditions are not yet as severe as in 1976.

Should any cracks appear, homeowners are advised not to panic; many will close up naturally once normal moisture levels are restored.

This is much the same advice as the hard-pressed counsellors at Relate have been offering their overwrought clients – and will be offering again when the summer holidays end.

One of Relate's more predictable peaks routinely appears in September, when couples stressed beyond bearing by the pressures of spending a fortnight's holiday in close proximity to one another, come in search of guidance.

Hundreds of workers abandon ports strike

By Micheel Smith

THE FUTURE of the national docks strike is in the balance this morning after hundreds of dockers at Britain'e hlggest port returned to work yesterday and others in the country are preparing to follow.

Although there will he strong calls at a national dockers' meeting this morning for abandoning the strike, Mr Ron Todd, general secretary of the TGWU transport union, was thought last night to be considering ways of maintaining the action.

One possibility is that the national strike will continue but that dockers will be given dispensation to hold local negotiations in individual ports.

Such a formula would help the union and dockers to save face, although it would be an acknowledgement that the aim of the strike - negotiating a national deal to replace the aholished National Dock Labour Scheme which regulated employment and conditions in most British ports – was unachievable.

However, dockers' leaders will be under pressure to call an orderly return to work by all strikers.

Some union officials fear that the unco-ordinated drift back to work at ports during the last few weeks means it will be extremely difficult to establish any semblance of common terms and conditions at ports.

The London port of Tilbury said yesterday that all 498 former registered dockers who were asked to return to work under new contracts had done so yesterday.

The port is Britain's biggest and its dockers were among the staunchest in favour of the strike.

Their resolve was broken after management threats this week that they would lose both their jobs and redundancy packages of np to £35,000.

The National Association of Port Employers (Nape) said yesterday, that 2,542 former registered dockers had left the industry and taken voluntary redundancy, 4,247 are still on strike and 2,432 are working.

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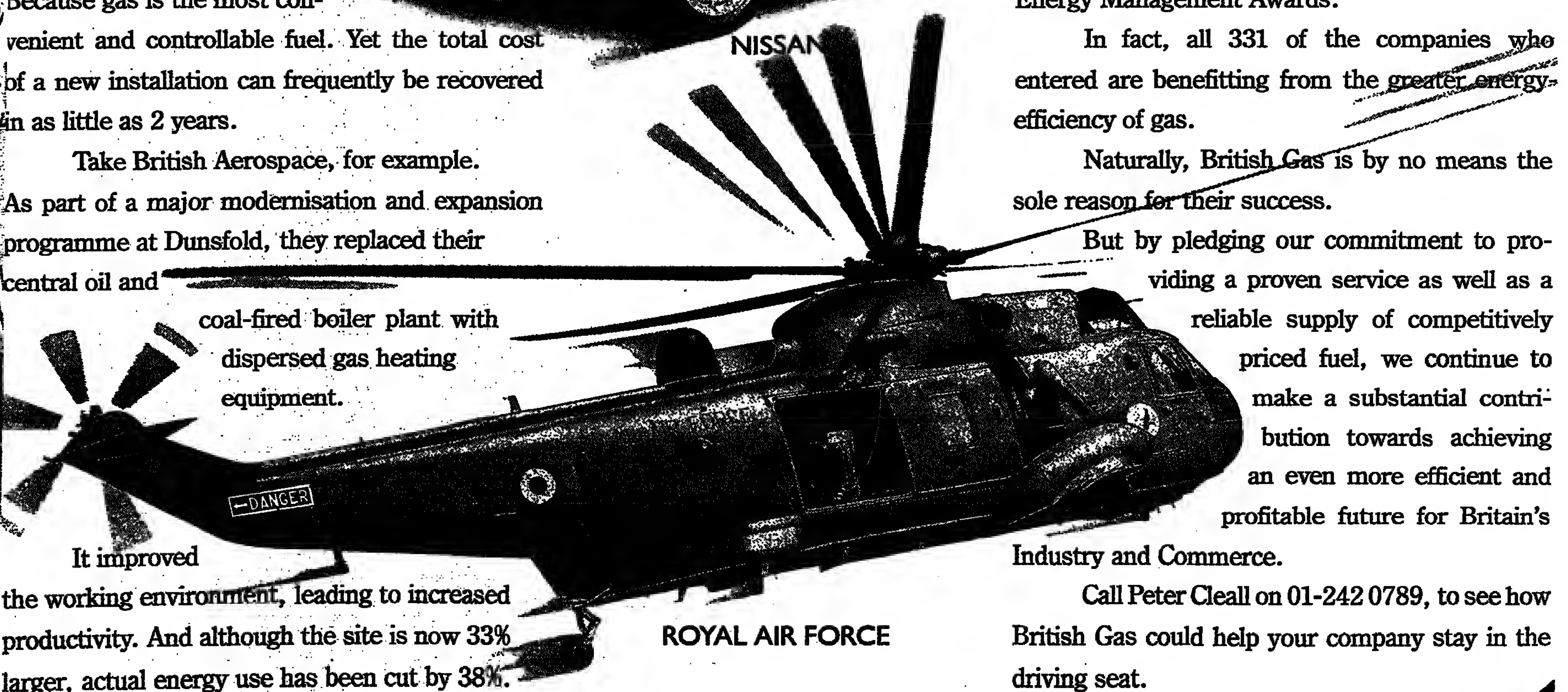

ROYAL AIR FORCE

It improved the working environment, leading to increased productivity. And although the site is now 33% larger, actual energy use has been cut by 38%.

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THE GEM AWARD

And in the case of the RAF's Brawdy station, energy use has fallen by over 430,000 therms a year, a saving of 31%, by replacing two centralised oil-fired boiler houses with localised gas boilers.

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What to do with their enormous liquidity is a challenge facing many West German companies. **Haig Simonian** finds that anything less than conservative is generally considered anathema

One thing West Germany's biggest companies are not short of is cash. According to a senior Bundesbank official, 98 per cent of corporate investment last year was financed by companies' own funds, with a mere 2 per cent coming from outside sources like bank loans.

German laws which allow companies to use pension fund contributions to finance their investments partly explain their present independence from their banks. And last year's favourable economic climate, which is now heing reflected in a string of record corporate results, boosted profitability and helped to build up corporate cash mountains, ranging from the DM24bn Everest at Siemens to around DM15bn at Daimler-Benz and DM6bn at BASF.

But what do leading German companies do with their money? US and UK critics often accuse the "ultra-conservative Germans" of simply squirrelling away their growing liquidity in risk-free long-term domestic government bonds, which they then forget about until maturity.

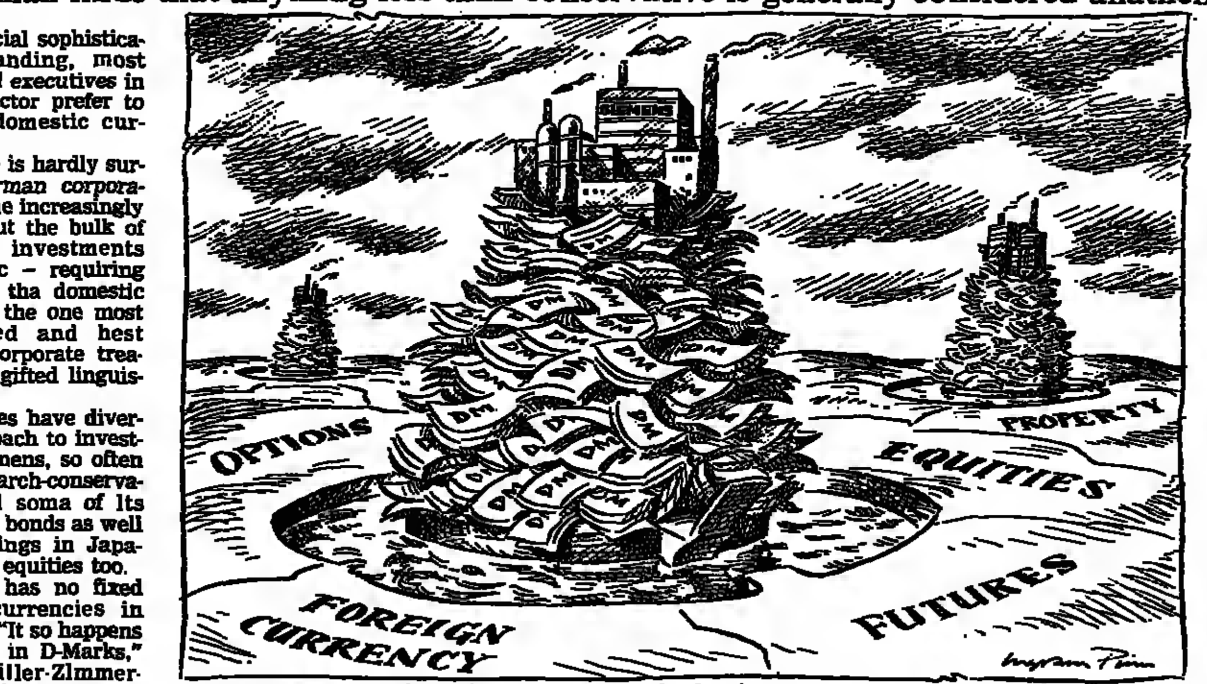
"Riskier" alternatives, such as foreign currency investments, property or even domestic equities are spurned, despite the higher rewards often available, it is claimed. And derivative instruments like futures and options, which could be used either for speculation or just hedging, are said to be anathema.

Siemens, the electrical and engineering giant, is often singled out for such attacks on account of its massive liquidity, sluggish internal growth, and, until its joint hid with General Electric Company for Plessey, its aversion to any form of hostile takeover.

While German companies are undoubtedly more cautious than their UK or US counterparts, the evidence points to their not being as complacent as their foreign critics suggest. And Siemens turns out to be one of Germany's most enterprising groups when it comes to managing its money.

Ronaldo Schmitz, the highly-regarded 51 year-old finance director of BASF, Germany's biggest chemicals group, says he has three maxims regarding liquidity management: money is invested only in Germany, only in D-Marks and only in instruments which allow maximum ease of access at short notice.

That could be a credo for much of corporate Germany, international experience and



increasing financial sophistication notwithstanding, most German financial executives in the corporate sector prefer to stick to their domestic currency.

The preference is hardly surprising. Big German corporations have become increasingly active abroad, but the bulk of their industrial investments remains domestic – requiring DM funds. And tha domestic currency is still the one most closely followed and best understood by corporate treasurers, however gifted linguistically.

Some companies have diversified their approach to investment policy. Siemens, so often derided as the arch-conservative, has placed some of its cash in US dollar bonds as well as smaller holdings in Japanese and French equities too.

The company has no fixed rules on the currencies in which it invests. "It so happens that the bulk is in D-Marks," says Klaus Müller-Zimmermann, the executive vice president in charge of its central finance department. "We have a certain policy as to how much should be kept in D-Marks, but this is flexible. There is nothing monolithic about it; it's not engraved in stone."

"Despite its relatively low interest rates, the D-Mark had the highest yields for a number of years thanks to currency appreciation," he explains. "The overall plan is to have a high yield and to limit the risk. That may sound contradictory, but if the amount is big enough, it's not."

Siemens also stands out for its willingness to invest some funds in equities – in sharp contrast to most of its big counterparts. While the sheer bulk of its liquidity obliges it to spread its funds over a wide range of investments, the decision also reflects a more entrepreneurial attitude to managing its money.

By contrast, BASF and Daimler-Benz are much more typical of German industry. Apart from stressing the domestic currency, botb are also extremely cautious when it comes to their cboice of investment instruments.

BASF's domestic bond portfolio is limited to top-class issues in which there is maximum liquidity. Likewise, its fixed-term cash deposits are on relatively short maturities, with the stress on ease of access.

Daimler-Benz, which is already Germany's biggest industrial company with sales of over DM74bn, is even more liquidity minded.

"Kasse macht Sinn" (cash makes sense), says Hans Adams, a senior executive in Daimler's finance department, who spouts bomespun Swabian idioms to underline the group's money management policy.

With a string of opportunistic acquisitions like AEG, the electricals group, Motoren- und Turbinen-Union (MTU), the engines group, and Dornier, Germany's second biggest aerospace concern, behind it, Daimler's corporate philosophy dictates that liquidity should stand at the disposal of group investment strategy, explains Adams. That strategy is likely to be re-emphasised should its plan to buy Messerschmitt-Bölkow-Blohm (MBB) finally be given government approval after many months of uncertainty.

"It is not our money which makes us think about our industrial activities, but it is our industrial activities which make us decide what to do with our money," he says.

This credo of subsuming finance to industrial strategy is probably the touchstone for German industry in general. Treating cash management as a separate activity or profit centre, which can have some existence independent of the group's main industrial thrust, is rare on the corporate scene.

True liquidity management is important, with treasurers looking for high yielding and secure investments, but liquidity management is generally perceived as being an activity to serve the company's industrial strategy rather than perform spectacularly in its own right. Solid performance and limited risks are the names of the game.

The fortunes of companies which have behaved differently are often cited as justification. Volkswagen, which in 1987 lost DM473m through a fraudulent foreign exchange scam, is the name most often mentioned.

VW ran a large, independent and, until the forex affair, highly profitable treasury department, which used to trade foreign exchange in high volumes on its own account as an independent revenue-generating activity within the group.

Under its current finance director, Dieter Ullsperger, VW has kept its reputation for being one of corporate Germany's most professional money managers. But the free-wheeling days of its forex department, when it was more active in the forex markets than many big banks, are over.

Yet even German companies with a highly conservative approach to liquidity management can have different priorities. Fungibility is the key theme at Daimler. "It's a central part of our financial strategy to have liquid funds available," emphasises Adams. "Liquidity goes before profitability."

That may explain why Daimler bad an overall yield of about 6 per cent on its funds in 1988, compared witb tbe DM1.8bn – approximately 7.5 per cent – return generated at Siemens.

But while many German corporations are clearly willing to forsake some yield in return for what they see as greater flexibility, even Siemens' stress on yield has its limits – although for somewhat different reasons. Consistency in the group's annual investment earnings is almost as important as yield, explains Müller-Zimmermann. "We're looking for relative stability in treasury's contribution to the profit and loss account," he says.

The rationale is simple. Investment income provides such an important contribution to group results that wild gyrations from one year to another are undesirable, as they would upset the consistent trend in corporate earnings that Siemens likes to show, in line with much of corporate Germany.

Outright profit maximisation could be the priority for companies with smaller cash mountains, says Müller-Zimmermann. "But here, our contribution to overall results is so important that we have to ensure stability over the years."

That stress on consistency may help to explain Siemens' unusual openness by German standards to concepts like futures and options. For most of its counterparts, such tools, which are increasingly accepted in corporate boardrooms in other countries, are often still seen as expensive and unnecessary gimmicks.

"We would use anything to improve the yield of the portfolio, whether it's futures, options or swaps," says Müller-Zimmermann. "We feel these are legitimate instruments to improve yield."

However, even a sophisticated investor like Siemens restricts the use of derivative instruments to hedging its underlying cash portfolios. "We would have some hesitation buying without an underlying portfolio," comments Müller-Zimmermann.

Thus while the group uses derivatives to bedge its equity and interest rate risk, it is hardly active in precious metals futures, and wbolly absent in commodities.

The very mention of futures and options brings down the sbutters at Daimler and BASF. Adams is even highly sceptical of "heavily-marketed" instruments like the currency options offered to him by US banks in Germany.

Is the blanket objection to derivative instruments not strange in view of the company's conservative attitude to liquidity management? Neither Daimler nor BASF touches bonds with longer maturities than five years. This is in order to protect against interest rate risk and to ensure liquid markets should it need to sell out fast.

Yet neither company has considered using hedging instruments like futures and options to cover their interest rate risk. True, it is less than a year since German government bond futures started trading in London. But next year, they will become a key part of the product range at the new Deutsche Terminboerse, Germany's planned new financial futures exchange.

Such corporate indifference towards derivative instruments like bond futures is hardly promising for the DTB. But companies' apathy towards equities promises even less for the many bankers and stock exchange officials who are now trying to promote a change in German law in order to encourage companies to invest more of their spare cash in German shares.

With some DM200bn in pensions contributions available in total, even a small increase would enliven the domestic bourses, which still depend very heavily on foreign investors, and stimulate their development compared with more active foreign equity markets, say the bankers.

"How would it help our workers is the key question," says Schmitz. "I don't see that industry would gain from it. If we could earn more from investing in equities than by other forms of investment, then it could be attractive." However, like many of his colleagues, he draws attention to the poor long-term performance of German equities than the domestic bond market over time.

Daimler's Adams is even more adamant in his refusal to buy shares. Not only would the company face market risk, but there is also the danger of insufficient liquidity – meaning a poor market or depressed prices – should it need to sell out quickly, say to finance a new acquisition. For all its willingness to innovate, not even Siemens, which has some DM1.6bn invested in domestic equities, is much more encouraging.

Management abstracts

Overseas blues. *P Morgan in Accountancy (UK), Jun 89 (3 pages)*

Warns against some of the pitfalls of accepting a work contract abroad where, if one leaves within a certain time, costs of recruitment, transportation, hotel accommodation, immigration, and health costs can be repayable. Considers that changes in culture, work environment and climate can cause problems unforeseen at the time of acceptance. Written from the personal experience of the author who worked as an audit supervisor in Sydney and broke the contract after six months.

Auditing your customer service activities. *J.L Coppett in Industrial Marketing Management (US), Nov 88 (8 pages).*

Using the term "auditing" in the US connotation of "reviewing with the aim of improving," looks at the manifold aspects that can be considered now that the economy's emphasis is moving to service and customer expectations are rising. Stresses that suppliers do not always understand what their customers' expectations really are, and provides a categorisation of customer service requirements. Points made are illustrated from real life, such as the "cool" (free-phone) line of a DIY company on which technicians help customers with minor repairs of the product.

What American Express did. *J Stevenson in Direct Marketing (US), Nov 88 (4 pages)*

A case history of the experiences of American Express with direct mail, beginning in the late-1970s when each department independently ran its own campaigns; reports how things changed after the discovery that 1m pieces of mail were being issued every day. First, recipients were given repeated opportunities to be removed from the lists; then came the introduction of two control techniques: a classification of potential recipients in ten categories of propensity to buy, leading to decisions on which categories to drop; and a costing procedure based on a notional charge to each "customer" for each piece sent.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

TECHNOLOGY

A film maker focused on trouble-shooting

Rachel Johnson reports on a UK company with a forte for capturing natural phenomena

The company which discovered how to film a carrot growing underground and a stream from the inside of a pike's mouth has to be ready for the unexpected to happen – and to make sure the camera stays in focus when it does.

The genesis of Oxford Scientific Films' latest project is a fine example of how things move *in the mysterious world* of film technology. Peter Parks, a founder director of Oxford Scientific Films, was on an aeroplane reading about a *$50m project* to *make* a *film* about Earth-threatening activity on the face of the Sun. Called Solar Crisis, it was dne to start filming in the autumn.

The plot *required* a *rocket* to fly to the face of the Sun and fire anti-matter at the flares on the surface to save the world.

Parks found the item eyecatching for a number of reasons. First, being a scientist, he had keenly followed reports about the real-life solar crisis, which has caused electricity failures in *some* parts *of* Europe. The reason for this is that every 11 years the Sun enters a phase of intense activity, which leaves it covered in sunspots and prone to eruptions of particles and X-rays.

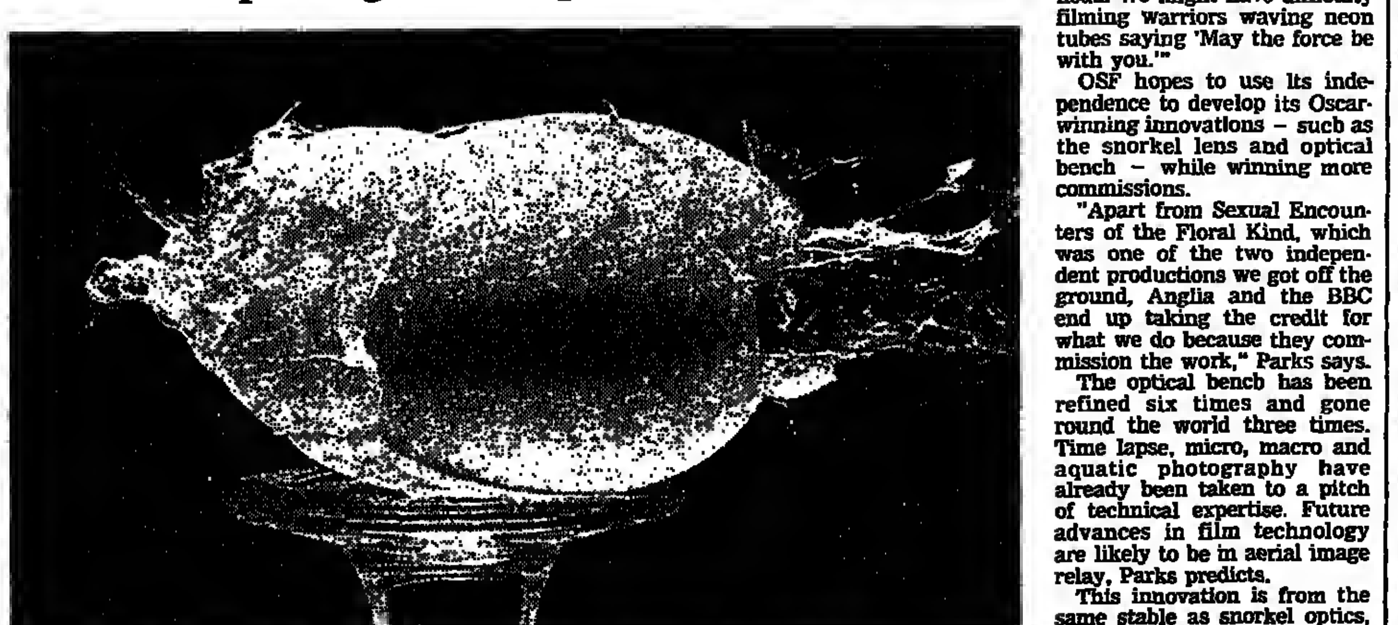
Second, he noticed that the company which was to produce the $50m film was Los Angeles-based Boss Film Corporation, a special effects group which did the feature films Ghosthusters and 2010. Richard Edlund, a founder director of the company, happened to be a friend of Parks – as well as a competitor.

As soon as Parks returned to OSF's bosky Oxford headquarters, he called Edlund in Los Angeles. "How," he asked, "are you intending to simulate and film these galactic events on the surface of tha sun?"

Edlund said he had no idea, so Parks offered to collaborate. The timing is opportune: OSF last week announced a management buy-out from Columhia Pictures and Anglia Television, *which, for all the gains in* terms of independence, did put at risk both the stream of commissions from these shareholders and a source of investment.

A more critical factor in Parks's call was the expertise he felt OSF could bring to the demands of the plot. OSF had pioneered a method of simulating the solar surface by pumping dyed, illuminated yeast towards the camera lens – all within an eight of an inch – creating "extraordinarily explosive effects."

Using such commonplace household substances as curry



An egg being shot by an air gun pellet, captured by filming at 5,000 frames a second

powder, milk, alcohol, sugar and salt, OSF will be able to mimic the script's cosmic explosions by dropping single cells of yeast into the fluids. At high magnifications, (between 100 to 400 times on the film plane, hnt up to 10,000 times on the hig screen) the single cells will appear to whirl past like meteorites.

The shots will he taken *using dark field illumination*, which addresses the trickiest aspect of filming micro-organisms: adjusting lighting levels so they are adequate but not so hot that they *fry* live specimens, such as butterfly eggs.

While modern film can be very fast (ie light sensitive), filming a single cell requires a lot of illumination at source for the imagery to get recorded.

Dark field illnmination focuses light to a pinpoint, while subjects are set against a hackground of true photographic black. The dark field is set behind the subject, while heat-toughened infrared filters are stacked hehind the powerful lights to absorb about 85 per cent of *the heat.*

The project will also, for the first time, overlay different planes of visual information in one shot, to make the image appear three dimensional. Past attempts used a painted background as on a theatre stage. For Solar Crisis, foreground and background will be filmed, as will the spacecraft weaving between the planes.

The Solar Crisis project, coupled with the bny-out, is regarded *as a turning point for* the company. It proves to Karen Goldie-Morrison, OSF's managing director, that small UK independents can compete *successfully* for feature film work against the bigger gronps, like Industrial Light and Magic, even on the home-ground of Hollywood.

"Even so, if yon're small, you sometimes don't get paid," she says. As a safeguard, OSF has becoma the sole British member of the trade body, the Effects Association.

The other six members are from the US (Apogee, Dreamquest and Boss from LA, ILM from San Francisco, and Greenberg and Ferren from the East *Coast.) Typically they* have 100 employees, whereas OSF employs about 30.

The UK arm may be small, bnt its expertise is much sought after. The special effects for Batman, which has already made about $170m in the US and is set to gross more than any other film, were made at Shepperton studios by a British technician, Derek Meddings, whose company is called Meddings Magics.

OSF, founded by *Oxford* biologists in 1967, has a reputation for coming up with the technology to achieve seemingly impossibla shots. One of the *company's commissions for the* BBC illustrates its trouhle-shooting inventiveness. Tha challenge was to film a flea feeding on a live rabbit, which called for up to 400 times magnification of a mobile auhject.

At such high magnification, they realised that if the camera were moved every time the flea moved, they would lose the shot. So they mounted the rabhit on a rigid base to reduce vibration to a minimum.

Instead of following the flea with the camera, they kept the *camera still by compensating* for the flea's movements hy moving the rabbit: if the flea crawled to the right, the rabbit was slid to the left. The "optical bencb" worked so well that OSF ended up recording the parasitic mites feeding on the flea at the same time.

The roots of their prowess, filming micro-wildlife, lesve some areas unexplored, Parks admits. "The company which did Star Wars (ILM) might have difficulty filming a pinhead. We might have difficulty filming warriors waving neon tubes saying 'May the force be with you.'"

OSF hopes to use its independence to develop its Oscar-winning innovations – sucb as the snorkel lens and optical bench – while winning more commissions.

"Apart from Sexual Encounters of the Floral Kind, which was one of the two independent productions we got off the ground, Anglia and the BBC end up taking the credit for what we do because they commission the work," Parks says.

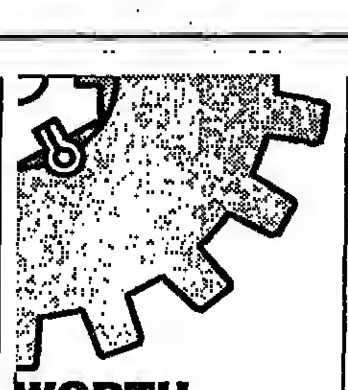
The optical bencb has been refined six times and gone round the world three times. Time lapse, micro, macro and aquatic photography have already been taken to a pitch of technical expertise. Future advances in film technology are likely to be in aerial image relay, Parks predicts.

This innovation is from the same stable as snorkel optics, which use lenses remote from the camera with pin-hole external pupils in a tube-like snorkel lens. This allows cameras to film underwater without getting wet, or be placed in the most improbable places, such as inside a flower.

With aerial image relay, both a foreground miniature and the background can be sharp at the same time. This makes it possihle to produce a clear image of a camel as seen through the eye of the needla. *Either element would be hope*lessly fuzzy unless the background image (the camel) was relayed into the plane of space occupied by the foreground (the needle).

While the film industry is getting "all excited" about computerised camera control, Parks is sure that aerial image relay is tha effect of the future. "Disney has rung us with an idea for s project using aerial image. Nothing's been decided, but I can tell you its about spiders," he says.

A *combination* of aerial image and explosiva yeast particles, enabling OSF to film the solar surface crawling with giant spiders in pin-sharp *focus,* is beginning to sound inevitahle.



WORTH WATCHING

Edited by Della Bradshaw

Woodpecker taps into quality

BY TAPPING a coin on a metal surface, experienced technicians can tell whather the metal is sound. The same principle ia used by the Woodpecker – only it uses an electronic ear not a human one.

Developed by Mitsui Engineering and Shipbuilding, of Japan, the Woodpecker can test anything from the steel hull of a ship to a ceramic bathroom tile. European distributor JR Technology says that it can be used for both quality control and in-service monitoring.

Laminates, ceramics or metals can be tested, as well as composite materials – a metallic or rainforced plastic akin bonded to foam.

The hand-held device taps a metal head against the surface – like a woodpecker. An electronic processor compares the sound with the "perfect" version in the computer's memory.

The condition of the material is indicated by a display of lights: green for high quality, two red lights and a siren for the opposite.

Fume controllers show their metal

FOLLOWING tha European Commisaion's decision to introduce atrict controls on car emissions by 1992, equipmant manufacturers are vying with each other to demonstrate which has the best technology.

One area of dispute is the base material used for *catalytic converters*, which convart noxioua exhaust fumes into less harmful substances. The catalyst is made up of a honeycomb substrate, usually made of ceramic, plated with precious metals, such as platinum.

But the ceramic versions are being challenged by metal ones, which heat up more quickly and so begin to work sooner. The makars – including Emitec, of West Germany, owned by Siemens and GKN of the UK – say this combats the disproportionate amount of pollution created by angines in the first minute of operation.

Meanwhile ceramic substrate manufacturers, such as Corning of the US, believa that the best solution is to refine the proven technology.

Corning has developed a ceramic catalyst with thinner walls, enabling a more densely packed honeycomb which increases the surface area of platinum coating.

It proposes that this could be used with a smaller device, near the angine, to convert pollutants amitted in the first seconds of operation.

Getting the measure of static

ANYONE who haa taken off a synthetic sweater knows about the problems of static alectricity. But electronic equipmant, aa well as the human body, is sensitive to static.

Increased use of electronic equipment in offices and factories has brought with it worries about static from carpets or furnishing fabrics. In extreme cases, computer data can be corrupted, or disk drives can find a lifa of their own and burst, unprompted, into action.

Companies wanting to *measure* the amount of static electricity in their buildings can use a portabla machine from John Chubb Instrumentation, of the UK.

The machine measures the dissipation of static by the fabric. An electrical charge is passed between a pair of electrodes attached to the surface. The information can be displayed as a graph on an IBM or compatible personal computer.

Cutting the cost of a conference

VIDEO conferencing – meetings between people in *separate locations* linked by television – is a service which has promised much, but generated little enthusiasm among business peopla.

One obstacla is the high cost of the equipmant and calls. PictureTel, of tha US, hopes to hava overcome this with its V-3100 model, availabla in the UK through Data & Control Equipmant.

The mobile equipment can be plugged into a digital dial-up telephone line – previously most video conferencing systems needed dedicated lines between the sites. In the UK *that* involves renting a digital line.

The equipment costs about £50,000 and a five-minute call to, say, France would cost £8.50.

One snag is that, until international standards are implemented for video conferencing, the recipients *also have to use PictureTel* equipment.

Is it a bird? is it a train?

TRAINS and boats and planes are no longer confined to distinct market segments, *according to the Argonne* Centre for Transportational Research in the US. It says that the best usa of maglev (magnetic levitation) vehicles *would be as a replacement* for aeroplanes, not trains as popularly believed.

The gap between a maglev vehicle and its "tracks" *means that it should be*

deemed a low-flying aircraft, says the *report. Its* introduction in the US to replace short or medium-haul flights would reduce noise, pollution and tha estimated $5bn a year caused by *air* traffic delays.

CONTACTS. Mitsui Engineering and Shipbuilding, Japan, 03 544 3411. Emitec: W Germany, 2246 12660 Corning: US. 607 974 8000 John Chubb Instrumentation: UK. 0242 573347 JR Technology. UK. 0763 260721. DCE: UK. 0296 432971 Argonne Centre for Transportation Research: US. 312 972 3000.

Wind out of retailers' sales

By William Cochrane

Vast amounts of new space, prospects of a decline in consumer spending and increases in costs for both developers and retailers have taken some of the steam out of the retail property market.

Birmingham, Britain's second city and striving to stay clear of the depression that enfolded the West Midlands in the early 1980s, reflects the problems that arise when growth in supply meets uncertain demand.

Retailing in the town centre of Birmingham has traditionally occupied a very tight square bounded by New Street, High Street, Union Street and Corporation Street. Zone A rents range from £80 to £85 a square foot to £150, according to Paul Brewer, retail agency partner at Grimley J.R. Eve.

Some of the nicest shopping is a stone's throw north of that at the Great Western Arcade, owned by Prudential Assurance; yet, says Mr Brewer, while the Arcade is prime in its niche, its best zone A rent is £55 a foot. Old rules, like the one about "location, location and again location" die hard in the retail property market.

The tight traditional situation has inspired a succession of shopping centres, one of the earliest of which – the run down, shabby but still busy Bull Ring – is being redeveloped by London & Edinburgh Trust. The £400m, 1m sq ft scheme which will involve a three-level shopping complex, called the Galleries, plus offices, restaurants and other leisure facilities, and will be the biggest city centre project in Europe according to Ray Guy, of agents Healey & Baker.

The Bull Ring, to the south of prime pitch, links with the Norwich Union's Pallasades, to the south west and directly above New Street railway station. The Pallasades was refurbished in a programme completed nearly two years ago and has benefitted accordingly.

The retail boom, and subsequent problems of the middle and late 1980s, are reflected in the experience of the Pavilions, a new centre developed by Bryant Properties, completed in November 1987 and the winner of the large centre award at the ICSC European Conference in Geneva in March 1988. Now owned by Royal Life, it has been available for sale – its size imbalances the Royal portfolio – but there have been no takers.

Fashion retailing was high on the hog as letting objectives were formed; the letting agents – Shearer Harris & Partners, Gooch & Wagstaff and Elliott Son & Boyton – went for it, and got names like Hennes & Mauritz, Wryggs and Hammells to add to multiples like Burton, Next and Laura Ashley. The centre is also linked to Marks & Spencer, on the "cool" side of the High Street according to Roy Harris, joint senior partner of Shearer Harris.

In the past year or so, fashion has been the first element of the retail mix to hit consumer sales resistance. Praised for its retail planning and creative use of three dimensions, the Pavilions has recently had to cope with tenants who have been unhappy about its high rents, and not so high trading levels. Some of the tenants, apparently, have been pushing for turnover rents so that their costs could be related to the lower-than-expected level of sales.

That situation, says Arnold Hammond, deputy chairman of Ladbroke City & County, has rubbed off on to his company's City Plaza, a mixed development comprising 60,000 sq ft of offices and 50,000 sq ft of retailing to the immediate west of the prime retail pitch. The offices went to Guardian Royal Exchange and Jardine Matheson; but the shops, targetted high up the fashion market, have been slow to go.

"We've had a lot of offers from the niche multiple style of retailer," says Mr Hammond, "but this would have compromised our trade." He expects six more lettings by August to get the centre up to 75 per cent let, naming Henry's of Bond Street, the London end of the Louis Vuitton group, and Rodier, an exclusive fashion house. The first floor specialist food hall should be graced by a tea and coffee retailer, cheeses and chocolates.

Labroke is also developing, in conjunction with Lynton, a fringe shopping centre called One Stop at Perry Bar, to the north of the city centre. This will combine retail warehouses, including an Asda foodstore, and conventional shopping in 350,000 sq ft with 1,400 free surface car parking spaces, and it is going to be Ladbroke's "most successful" scheme yet, according to Mr Hammond.

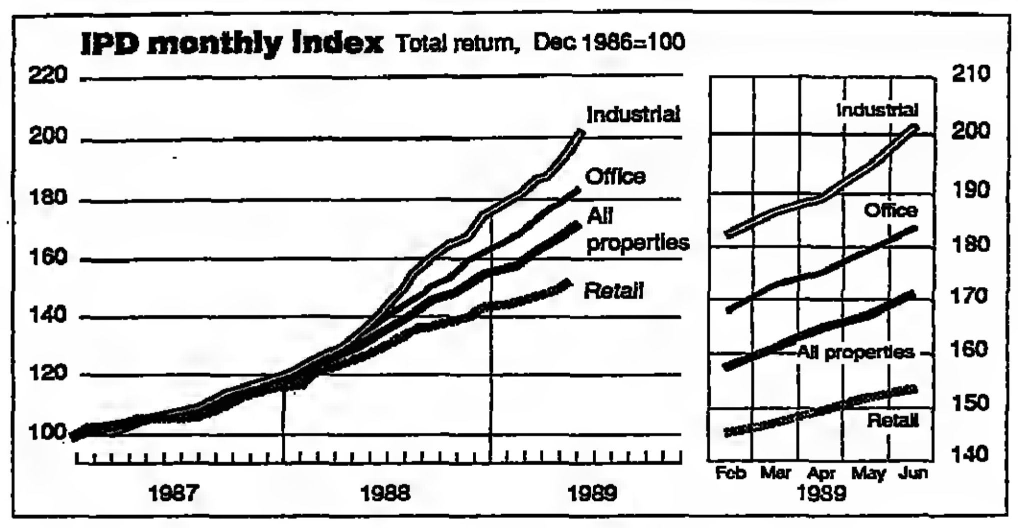
"We've tied up 50 per cent of the sheds," he says, "and we're putting individual shops out to tender for individual trades – achieving up to £45 a foot, zone A." The recent lesson to add to the location adage – that quality, modern retailing offering good parking facilities goes for a premium on the periphery of congested town centres – is exemplified in this development.

Out of town, there is a big deal in Richardson Developments' Merry Hill development, which looks set to outdo John Hall's prototype MetroCentre development at Gateshead, in both size and style.

In five phases built from 1986 to 1989, 1.8m sq ft of retailing in total is served by 11,500 car parking spaces, says Tony Williams, the Grimley J.R. Eve partner who concentrates on the Merry Hill development. A further two phases will bring in 300,000 sq ft of offices, a marina and leisure space.

Roy Richardson, one of the twin brothers born on the edge of the development and linked to it by strong emotional ties, says the the company is building and putting in a monorail system at a cost of £20m to link the site with five stations serving shopping, car parks, offices and leisure facilities.

The other big out of town prospect for the Black Country, Sandwell Mall on the former Patent Steel Shaft site which has been taken over by Speyhawk and Alton Group, is having much of its site engineering problems removed, by open cast mining by the Coal Board. However, for that reason, Sandwell is not likely to be out of the ground before 1994, and its retailing will be into yet another new generation in this fast-changing business.



Sectors are holding steady

THE PROPERTY market remains in a buoyant state according to the latest monthly index of the Investment Property Databank, which shows that total returns for the year to June were a promising 26.6 per cent.

The total return for the month of June was 1.9 per cent, the highest of the year for the second month in succession, while the return for the second quarter of 1989 (5.4 per cent) exceeded that of the same period last year and only just fell short of the record levels seen in the last nine months of 1988.

Although the CBI says that the Government's policy of using high interest rates to combat inflation has begun to affect business confidence in the UK, the industrial property sector showed no sign of easing in June. The total return on industrial property was 41.6 per cent in the year to June, 7.7 per cent in quarter to June, and 3.4 per cent in June alone. The IPD also reports that rental value and capital value growth in June was the highest this year.

The retail sector is also holding steady against the squeeze on consumer spending, with as yet no sign of the widely predicted downturn in the retail property market, says IPD. Reatal value growth on retail property was at a year high in June. But the total returns in June alone, 1.7 per cent, and for the year to June, 17 per cent, were both down on the previous month.

For offices, the picture is also stable. The total return on office property for the month was 2.4 per cent, and for the year to June 33.2 per cent, in both cases a slightly stronger performance than in May.

Patrick Harverson

ARTS

Arts Week

F	Sa	Su	M	Tu	W	Th
28	29	30	31	1	2	3

MUSIC

London

The Proms. Works by 114 composers will be heard during this year's Promenade Concert season, which continues until September 16. Most concerts take place at the Royal Albert Hall, though St Paul's Church, Knightsbridge, and Kensington Town Hall are also used. Tickets for most concerts cost from £3 to £11, and can be booked on 589 8212, 589 9465 (10am-6pm) or 379 4444 (24 hours); promenade tickets are available only at the door on the day of the concert priced at £1.50 or £2.

This week's concerts include London Choral Society and BBC Symphony Orchestra under Lothar Zagrosek, playing Kodály and Brahms (Fri); BBC Concert Orchestra conducted by Barry Wordsworth in a programme of American music (Sat); Academy of Ancient Music, conducted by Christopher Hogwood, in a performance of Handel's *Orlando* (Sun); Royal Philharmonic Orchestra, conducted by Vladimir Ashkenazy playing Brahms, Mussorgsky and Glière (Mon); BBC Symphony Orchestra, conducted by Andrew Davis and Witold Lutoslawski playing Ravel, Lutoslawski and Berlioz (Tue); BBC Philharmonic Orchestra conducted by Edward Downes in a concert of Bax, Walton and Strauss (Wed); and the BBC Philharmonic Orchestra conducted by Valery Gergiev, playing Prokofiev, Schnittke and Tchaikovsky (Thur).

Paris

Festival of Paris. Clarinet concert, with Michel Portal, Christoph Henkel (cello), Georges Pludermacher (piano). Beethoven, Brahms (Tue) Auditorium des Halles.
Festival of Paris. Baroque music. Tokyo Baroque Trio, Agnes Mellon (soprano). Duphly, Lully, Campra, Clerambault (Wed) Auditorium des Halles.
Festival of Paris. Clarinet concert, with Michel Arrignon, Sinfonietta de Chambord conducted by Amaury du Closel. Gossec, Weber, Molter, Haydn (Thur), Auditorium des Halles.
Festival Vivaldi. Chamber Orchestra Jean-Jacques Wiederker. Bach, Vivaldi (Tue, Wed, Thur). Saint-Louis-en-L'Ile Church (45231825).

Summer festivals in France.
La Chaise-Dieu in Auvergne, Aug 23-30 (71000116).
Saint-Jean-de-Luz, Aug 30 - Sept 16 (59260316).
La Roque-d'Anthéron, Aug 1 - 23 (42505115).
Menton, Aug 5 - 31 (93575700).

Brussels

Eglise Saints Jean et Etienne - Rosario Macaluso (trumpet) Joelle Sauveniere (organ). Sun 4pm (513 83 20)
Cathédrale Saint-Michel. Weimar Franz Liszt Academy chorus conducted by Gert Frischmuth. Josef Ryelandt's Missa 4 Vocibus Inaequalis, August 6. Organ Concerts by Wim Van Beek: Bach, Mozart, C.P.E. Bach, Andriessen, Tues (217 83 45).

Amsterdam

Amsterdam New Sinfonietta conducted by Lev Markiz. Shostakovich (Fri).

Vienna

Haydn Sinfonietta conducted by Manfred Huss. Beethoven. Grosser Redoutensaal (Fri, Mon, Wed).
London Fortepiano Trio. Mozart, Haydn, Beethoven. Pallavicini. (Sat).
Organ Recital by Thomas Daniel Delbos. Karlskirche. (Sun).
Moscow Radio Symphony Orchestra conducted by Vladimir Fedoseyev. Sibelius, Beethoven. Arkadenhof (Tues, Thur).

Berlin

Luciano Pavarotti, with the Berlin Symphony Orchestra, conducted by Leone Magiera. Mozart, Mercadante, Verdi, Puccini, Bizet, Donizetti, Rossini, Mascagni, Sibelia (Sat). Waldbühne.

Bad Wörishofen

Ivo Pogorelich Festival. This first festival initiated by the Yugoslav pianist Ivo Pogorelich, aims to support young musicians. Among the musicians are violinist Eduard Wulfson and pianists Franz Massinger and Frederic Chiu. Aug 1-8 (08247/ 350253,8939). Bad Wörishofen, Postfach 1442.

Montepulciano (Tuscany)

14th Cantiere Internazionale d'Arte. Founded by Hans Werner Henze in 1976, and specialising in baroque opera and modern musical theatre, the festival presents performances of Cimarosa's *Il Matrimonio Segreto*, and concerts every day, including first Italian performance of Henze's violin concerto, with bass/baritone voice and magnetic tape, conducted by Peter Sheppard, with Beethoven's sixth symphony and Sylvano Bussotti's Regina (Sun) (717092/758213).

New York

Mostly Mozart Festival. Takacs String Quartet with Richard Stoltzman (clarinet) and Vladimir Feltsman (piano). Mozart, Beethoven (Mon); Festival Orchestra conducted by Edo de Waart with Kalichstein/Laredo/Robinson Trio and Hakan Hardenberger (trumpet). Mozart, Beethoven, Haydn (Tue, Wed); Kalichstein/Laredo/Robinson Trio. Mozart, Haydn, Schumann, Beethoven (Thur). Avery Fisher Hall (874 2424).

Chicago

Ravinia Festival. Preservation Hall Jazz Band (Mon); Chicago Symphony Orchestra conducted by Dennis Russell Davies with Leonidas Kavakos (violin). Tchaikovsky, Prokofiev. (Thur) Highland Park (728 4642).

Tokyo

NHK Symphony Orchestra: Summer concert. NHK Hall (Mon) (465 1780).
Hiroko Nakamura (piano), with the Yomiuri Nippon Symphony Orchestra, conducted by Kazuchi Ohno. Mozart, Grieg. Suntory Hall (Mon) (366 9996).

OPERA AND BALLET

London

Ballet. At the Coliseum, the Bolshoi Ballet continues a grand London season with performances of *Swan Lake* and *Spartacus*. At Sadler's Wells, the fine Paul Taylor Company from New York presents evenings of superb choreography.

Paris

Grand Palais des Champs Elysées. Ballet Moisseiev: Russian and world folk dancing (48787515).

Bayreuth

Bayreuth Festival. Wagner fans from all parts of the worldwill see the premiere of a *Parsifal* production by Wagner's grandson Wolfgang. Conductor James Levine leads a strongcast including William Pell in the title role, Bernd Weikl, Matthias Hoelle, Hans Sotin, Franz Mazura and Waltraud Meier. After criticism of Harry Kupfer's *Ring* cycle production, changes are expected for the revival. The main roles are once again sung by Siegfried Jerusalem/Rainer Goldberg, John Tomlinson, Peter Hofmann and Nadine Secunde. *Lohengrin*, conducted by Peter Schneider has Paul Frey in the title role, Cheryl Studer/Nadine Secunde, Ekkehard Wlaschiha, Gabriele Schnaut and Eike Wilm Schulte. *Tannhäuser* returns, after a one year break with the new Venus Ruthild Engert-Ely, Cheryl Studer, Wolfgang Brendel, Hans Sotin/Manfred Schenk, William Pell and Siegfried Vogel, in Wolfgang Wagner's delightful production.

Munich

Munich Opera Festival. Last week of performances opens with *Le Nozze di Figaro* with star singers Margaret Price, Wolfgang Brendel, Susan Quittmeyer, Hermann Prey, Angela Maria Blasi, and excellently conducted by Bernhard Klee. *Dornröschen* has wonderful Peter Wright choreography. *Don Giovanni* has a first-rate cast led by Thomas Allen, Kurt Moll, Julia Varady, Peter Schreier, Mariana Nicolescu, Jan-Hendrik Rootering and Angela Maria Blasi. *Die Meistersinger von Nürnberg* in August Everding's ordinary staging, convinces thanks to Bernd Weikl, Kurt Moll, Hans Guenter Noecker, Kenneth Garrison, Rene Kollo and Lucia Popp in the leading roles.

Rome

Terme di Caracalla. *Aida*, in a revival by Sylvano Bussotti of the spectacular 1960s version, with six over-excited horses now replacing the camel, which has long since retired to Rome zoo. The conductor, Nicola Rescigno, who conducted Callas for many years and is now with the Dallas Opera, returns after a 25 year absence, and the excellent opening cast is led by American soprano, Aprile Millo as Aida, Grace Bumbry (Amneris and Giorgio Lamberti (Radames). Also Mauro Bolognini's traditional production of *Tosca*, conducted by Jan LathamKoenig, with Giovanna Casolla in the title role, Nicola Martinucci as Cavaradossi and Ingvar Wixell and Ettia Padovan alternating as Scarpia (46.17.55/46.36.41).

Verona

The Arena. This week's performances include Verdi's *Nabucco* conducted by Daniel Oren, with Silvano Carroli, Piero Cappuccilli and Paata Burchuladze, Gianfranco de Bosio's production of *Aida*, conducted by Pinchas Steinberg (Aprile Millo and Bruno Beccaria), and Verdi's *La Forza del Destino* with Maria Chiara, Giorgio Zancanaro and Nicola Martinucci, conducted by Sandro Bolchi (596517/ 8005151).

Ravenna

Ravenna Festival. Verdi's *La Traviata* conducted by Massimo deBernard, with Nelly Miricioiu and Renato Bruson (32577).

New York

New York City Opera. The week features the first performance of *The Mikado* with Lisa Saffer and Richard McKee in Lofti Mansouri's production conducted by Peter Howard. Other performances include *Die Zauberflöte* conducted by Scott Bergeson with Elizabeth Hynes as Pamina, Elizabeth Carter as Queen of the Night and Walter Macneil as Tamino; and *Rigoletto* with Maureen O'Flynn as Gilda, Susanne Marsee as Maddalena and Pablo Elvira in the title role, conducted by Scott Bergeson. Lincoln Center New York State Theatre (877 4700).

EXHIBITIONS

London

The National Gallery. The Artist's Eye – this year the abstract painter, Bridget Riley's turn to take her pick of the collections. She chooses a mere seven works, but all of them masterpieces – great figure compositions by Titian, Poussin, Veronese, Rubens, El Greco and Cezanne. Daily until August 31.
The Whitechapel Gallery. Euan Uglow – a retrospective of the paintings of the nude by a painter who is at once the most severely objective and the most seductive of our painters of the figure. Until September 3; closed Mondays.
The Hayward Gallery. Art in Latin America – a rich and fascinating survey of the painting and sculpture that has come out of Central and South America since the early 19th century, which is roughly the period of the achievement of independence from the Spanish and Portuguese colonial empires. It presents an extraordinary cultural cocktail – political, anthropological and social besides purely aesthetic, with the volatile Latin sensibility set against the older and still persistent indiginous Indian cultures. Daily until August 6.
The Royal Academy. The 221st Summer Exhibition of the Royal Academy – the usual gigantic and enjoyable free-for-all of painting, sculpture, print and architecture with nearly 1,200 works on show. Yet, as always, it is different this year for the particular treats it offers for the visitor who has the determination to search them out among the general mass. In defiance of received opinion, the general standard of work is commendably high and this year better displayed than ever. Daily until August 20.

Paris

The Louvre. The glass pyramid, built by I.M. Pei, the Sino-American architect, has opened to the public as a dramatic entrance to one of the world's most famous museums. Erected as a medieval fortress in 1204, the Louvre later expanded into a renaissance royal palace only to be turned into a museum in revolutionary 1793. Open 9am-6pm, Mon and Wed until 9.45pm, closed Tue.
The Louvre. Les donateurs du Louvre. Aptly, the newly refurbished museum inaugurates the 1,300 square metres of space created underground for temporary exhibitions by expressing gratitude for the generosity of donors throughout its existence. 10pm, all days except Tuesdays. Ends August 21. Entry through the Pyramid, Hall Napoleon, Niveau Accueil.
Centre Georges Pompidou. Matisse drawings. Some 100 works retrace the painter's creative development from the post-academic beginnings to the *fauve* period and to the great brush-drawings of the 1940s and 1950s. The mixture of accomplished masterpieces and of rapidly dashed off sketches, adds a refreshing flavour to the exhibition. Closed Tue, ends Aug 27.
Bibliothèque Nationale. 1789 Le Patrimoine libéré. Rather than inheritence liberated, words like confiscation and plunder would describe more accurately the manner in which the 200 treasures, chosen from hundreds of thousands of documents, reached the Bibliothèque Nationale from churches and palaces during the revolutionary years. 52 rue de Richelieu. Ends Sept 10.
Centre Georges Pompidou and La Grande Halle de la Villette. A mammoth exhibition – Les Magiciens de la Terre – is ambitiously subtitled the First World Exhibition of Contemporary Art. Taking four years to prepare and costing FFr30m to stage, the exhibition needs all the space of the 5th floor of Beaubourg and the Grande Halle de la Villette to accommodate the 100 artists – half of whom come from the third world – whose works span the globe. Centre Georges Pompidou (42771233) and Grande Halle de la Villette, 211 Ave Jean-Jaures, Metro Porte-de-Pantin (42497722). Both exhibitions closed Tue and end August 14.

Martigny

Fondation Gianadda. A Henry Moore retrospective of some 50 sculptures, 80 drawings shown in rotation and 60 engravings is as impressive by the judicious selection of exhibits, as by the exceptional location for 12 of the monumental statues in a park with Alpine peaks as a backdrop. There are family groups, majestically reclining feminine figures, the hieratic couple of the King and Queen. But most of all, the works, be they in bronze, marble or alabaster, be they of vast proportions or fitting into the palm of a hand, are a hymn to eternal motherhood. Ends Nov 19 (026-223978).

Brussels

Centre Culturel le Botanique. A sense of catastrophe – art in the 1980s shows works of American and European artists. Closed Monday ends August 13.
Musée du Costume et de la Dentelle. Women and Equality 1789 - 1889. Ends Sept 24.

Frankfurt

Schirn, Kunsthalle, Am Römerberg 6a. A Wassily Kadinsky retrospective (1866-1944). Wassily Kadinsky, initiator and founder of the famous Blue Horse style also created a new form of abstract painting. He left Russia four years after the revolution and was forgotten for many years. To rehabilitate him 45 years after his death, 20 museums from all parts of the world have lent about 170 oil paintings, watercolours and drawings for this unique exhibition, only to be seen in Frankfurt. Ends Aug 20.

Bonn

Kunsthalle am August-Macke-Platz, Hochstadenring 22. Centres, Residences and Metropolis in German History. This interesting exhibition, organised by Bodo-Michael Baumunk, has about 1,500 pieces on loan from private collections and museums. It is the government's contribution to Bonn's 2,000th anniversary. Sketches and models for the Bundestag are on display *as well as photographs of the* first German Chancellor, Konrad Adenauer. Ends August 20.

Bremen

The Kremlin Gold. The exhibition is jointly organised by the Bremen Uebersee Museum and the Moscow Kremlin Museum. This presentation of around 80 pieces of Russian goldsmith's art covers the early Byzantine period through to the beginning of the 20th century. It shows the different styles of the goldsmith's art such as filigree and enamel work in the 15th century, colourful decorations with precious stones in the 17th century, followed by the European influence of the 18th century. Bremen Uebersee Museum, Bahnhofsplatz 13. Ends August 13.

Amsterdam

Amsterdam Historical Museum. A selection of 70 design drawings from the private collection of art dealer *Lodewijk Houthakker.* *Spanning four centuries,* they range from delicate architectural detail to grandiose pipe-dreams, and merely whet the appetite to see more from this fabled collection of more than 1,000 sheets. Ends Sept 17.

Vienna

Galerie im Heiligenkreuzerhof has a selection of watercolours and other paintings by Gustav Klimt, the turn of the century Austrian artist who helped to skake the artistic establishment out of its lethargy. Uotil August 16.
Secession. Never to be accused of neglecting the younger generation of Austrian and international artists, this gallery is exhibiting the Vienna artistic scene during 1989 as well as a marvellous photographic exhibitioo by Astrid Klein. Until August 27.
Schloss Grafenegg, in Lower Austria. Besides a marvellous place to visit, there is a wonderful exhibiton of children's books and fairytales. Until September.
The Benedictine Monastery in Melk, an hour's drive from Vienna, celebrates its 900th anniversary. Besides a fascinating collection of paintings, books and later, newspaper cuttings, the Abbey boasts the finest baroque architecture *in this part* of Europe. Until November 15.
Museum for Applied Arts is celebrating its 125th anniversary with an exhibition focusing on the impact art has had on industrial design in Austria. This relationship blossomed at the turn of the century when a group of Viennese artists broke away from the established artistic circles and brought their skills and creativity into interior and industrial design. Ends September 4.

Rome

Galleria Nazionale d'Arte Moderna. The Sonnabend Collection contains a little of everything, from pop-art with some of the best-known works of Warhol, Lichtenstein, Jim Dine, followed by examples of American minimal art (Flavin, Judd, Morris), to conceptual art and *Arte povera*, with works by Gilbert and George, Paolini, Merz, Pistoletto and Kounellis, ending with some curious examples of German neo-expressionism. Until Oct 2.
Museo Napoleonico. Eighteenth-century Roman Theatre and Carnivals. Life was anything but *comfortable for impresarios* under the oppressive papacy of Pius VI, with ruin continually staring them in the face through forced closure by unpredictable papal censors. This absorbing exhibition covers the years 1775, when Pius VIth's long reign began, to 1799, and attempts to show how the conflicting influences of the papacy and the revolution in France affected the Roman theatre. The exhibition opens with a coloured lithograph of the Pope's triumphal procession, immediately after his election, alongside the edict which condemned to death the supposed author of a tasteless masque written for the occasion (the true author of which was said to be Prince Chigi). The Roman cultural scene was lively but frivolous, ballet and spectacular theatre in general being much preferred to classical plays or opera. Included in the exhibition are numerous etchings of stage sets and elaborate papier-maché architecture and portraits of contemporary composers such as Cimarosa and Paisello, and an enchanting Perseus and Andromeda by the French sculptor, Chinard. Ends Sept 30.

Turin

Russian and Soviet Art: 1870-1930. Renzo Piano, architect of the Beaubourg, has given the 250 works chosen from Soviet museums by Giovanni Carandente an immensely effective setting, turning the ground-floor workshops of the disused Fiat factory into the equivalent of an Arab tent. The works are hung on suspended panels of white gauze, divided into 22 more or less chronological sections, complemented by the immense Bolshevik-red banners which flutter in the breeze in the square outside. Many of the early figurative paintings on show give evocative glimpses of life in the Russian villages and the particular quality of light and landscape, notably Vasiliev's Autumn Woods, Nesterov's pensive girls in traditional dress at the lakeside and Vinogradov's inviting summerhouses on the slopes of the Crimean hills, with their unexpectedly luxuriant gardens. Cosmopolitan and sophisticated, Russian artists could hardly have been in closer contact with contemporaries in France and Germany. Matisse was in Moscow to install his two paintings, Music and Dance in the house of the collector, Sergei Sukin, and two symbolist works on show by Petrov-Vodkin, Youngsters and The Thirsty Fighter contain clear echoes of these. The giant figure of the prototype of impresarios, Diaghilev, looms over the exhibition. There are two portraits, one by Serov, elegant and devilish, dated 1904, and another, with his old nurse, painted by Bakst in 1906. There are numerous original designs for the sets of the Ballets Russes: Petrushka (1911) and Pavillon d'Armide, by Benois (1907), the ballet which marked the beginning of Fokine's career as a choreographer and that of Nijinsky and Pavlova as dancers, at the Marinsky theatre. A number or remarkable portraits stand out, from Vladimir Tatlin's empty-faced Sailor to Altman's faintly expressionist portrait of the poetess Anna Achmatova (1914), with its intense blues and yellows, Serov's mournful Grand Duke Pavel Alexandrovich and Chagall's Red Jew. Chagall has a section to himself, which includes a number of charmingly domestic scenes, such as The Datcha Window, as does Kandinsky, with three fine works, including the large Composition VI from the Hermitage. Ends *October 20.*

Spoleto

Rocco Albornoziana and Church of S. Nicolo. 17th century painting in Umbria. The exhibition is the fruit of nearly 20 years research work by Professor Brunotoscano and a group of helpers, who have been through Umbrian churches and convents with a toothcomb, and the gloriously restored results can be examined close-to in two settings (of which the latter is by far the most satisfactory). The works are uneven *in quality*, but all are interesting, each telling a story (often with the sponsor looking pious in the lower right-hand corner), and often harking back in style to earlier artists such as Perugino. Not all are by local painters: a notable exception is fine work by the French painter, Jean l'Homme (signed and dated 1631), and some are discoveries, such as an unknown, Francesco Furini. One of the most beautiful is the Maestro di Serrone's arresting and enigmatic Workshop of Sangiuseppe where Christ (with an almost victorian head of curls and roughly eight years old) standing between his parents forms a rough cross from wood fragments from the workbench, and binds them together with thread from his mother's sewing-box, a mysterious smile on his face, while his parents' eyes meet in anxious premonition. Ends Sept 28.

Venice

Museo Correr. French impressionists from the Mellon collection at the National Gallery of Art in Washington: more than 40 works, among which are delights such as Courbet's seascapes, Seurat's La grande Jatte, and Renoir's Madame Monet and Son. Ends Sept 4.
Palazzo Grassi. Italian Art: 1900-1945. A much-amplified exhibition *covering* a *briefer* period than did the recent show at the Royal Academy in London, organised again by German Celant, with the director of Palazzo Grassi, Pontus Hulten. An attempt is made to put the works into a clear political and social context, emphasising links with contemporary literature, music and cinema. *The exhibition ends* with stills from films by Visconti and Rossellini. Ends Nov.

Washington

National Gallery. More than 400 images are part of a massive retrospective of the 150 years of photography, here represented by Alfred Stieglitz, *Walker* Evans, Laszlo Moholy-Nagy among dozens of others. Ends Aug 13.
National Gallery. The first exhibit of the complete set of Mary Cassatt's colour prints includes familiar images of mothers and children from the American impressionist's oeuvre. Ends Aug 27.

Chicago

Art Institute. Two years after his death, Andy Warhol continues to make news with his new diary; even his work retains surprising freshness amid the variety that extends far beyond familiar images like his Marilyn Monroe and Campbell Soup tins. Ends Aug 13.

Tokyo

National Museum. Heijokyo Exhibition. Important archaeological finds excavated in the *past 30 years in Nara*, where Japan's capital and imperial palace were located in the eighth century. Closed Mondays.
National Museum of Modern Art. Art of the Showa Era. Paintings, sculpture, prints and photos by Japanese artists, all executed during the reign of the late Showa Emperor (1926-1989). Closed Mondays.
Teien Museum. Takeji Fujishima (1867-1943). Fujishima's work reflects the course of European Modernism but remains quintessentially Japanese in its delight in decoration for its own sake. The paintings on show include, landscape, still life and portraits. Closed Mondays.
Idemitsu Museum. Hoan Kosugi. Kosugi's early work was influenced by Impressionism, but in later years he created a more Japanese style in sumie and watercolour. His favourite subjects were flowers, birds and people. Closed Mondays.
Suntory Museum. Edo Glassware. Over 120 glass objects from the Edo period (mid 17th-mid 19th century), including glassware imported from Europe as well as examples by Japanese craftsmen. Closed Mondays.

LEGAL NOTICES

TO ALL HOLDERS OF PENGO FINANCE, N.V. CLASS A AND CLASS B NON-INTEREST BEARING CONVERTIBLE SENIOR SUBORDINATED GUARANTEED DEBENTURES 1991 AND PENGO FINANCE, N.V., 8½ PERCENT CONVERTIBLE SUBORDINATED GUARANTEED DEBENTURES 1995 (COLLECTIVELY THE "DEBENTURES").

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

IN RE
PENGO INDUSTRIES, INC., Debtor. } CASE NO. 488-41303-MT-11 CHAPTER 11

NOTICE OF ORDER APPROVING DISCLOSURE STATEMENT AND OF TIME FOR ACCEPTING OR REJECTING PENGO INDUSTRIES, INC. PLAN OF REORGANIZATION

The Bankruptcy Court for the Northern District of Texas, Fort Worth Division, has entered an Order on July 20, 1989, approving a Disclosure Statement under Chapter 11 of the Bankruptcy Code that was filed by Pengo Industries, Inc. ("Pengo") on May 26, 1989, as modified, relating to the Pengo Plan of Reorganization ("Plan") of even date, as modified. The Plan along with the Disclosure Statement, is presently being transmitted to all creditors and interest holders for voting to accept or reject the Plan. This notice is to serve as information pertaining to the Plan voting process for holders of the Debentures.

1. DESCRIPTION OF THE PLAN:
The Plan provides that holders of Debentures will be treated as creditors in Class 5, which class includes the majority of unsecured creditors. Debenture Holders are included in Class 5 on the basis of Pengo's guarantee of the Debentures. Based on the amount of their respective claims, Creditors in Class 5 will receive a prorata share of a total of $1,000,000 in cash and 203,504 shares of New Common Stock to be issued by the reorganized Pengo. Subordination provisions of the respective indentures covering the Debentures will not be recognized in distributions under the Plan.
If the Plan is confirmed by the Bankruptcy Court, all rights of the Debenture holders insofar as the Pengo guarantee of the Debentures is concerned will be determined by the provisions of the Plan, whether a vote is cast in favor of, or against or no vote is made in respect to the Plan. The Plan requires that a Debenture holder submit the Debenture(s) to the indenture trustees for the respective issues on or before one (1) year from the Effective Date, as defined in the Plan, for any distributions to be made under the Plan.

2. OBTAINING A BALLOT AND VOTING:
In order to obtain a copy of the Plan, Disclosure Statement and Ballot, a holder of a Debenture must contact:
Akin, Gump, Strauss, Hauer and Feld,
Counsel for Pengo Industries, Inc.
4100 First City Center, 1700 Pacific Ave.
Dallas, TX 75201
Attention: David F. Staber
(214) 969-2800
Ballots must be returned so that counsel for Pengo receives them no later than 3:00 p.m., Dallas time, on August 29, 1989. A COPY OF THE DEBENTURE(S) FOR WHICH THE BALLOT IS CAST MUST BE ATTACHED TO THE RESPECTIVE BALLOT IN ORDER FOR THE BALLOT TO BE VALID.

3. OBJECTIONS TO CONFIRMATION:
Debenture holders wishing to object to the confirmation of the Plan may do so by filing a written objection by 5:00 p.m., Dallas time, August 23, 1989 with the Clerk of the Bankruptcy Court, 301 U.S. Courthouse, 10th and Lamar Sts., Fort Worth, Texas 76102 with a copy to counsel for Pengo.

4. INFORMATION:
Information may be obtained by contacting counsel for the Pengo or by contacting counsel for the indenture trustees of the Debentures as follows:

8½ Percent Debentures:
Roger A. Ferree, Esq.
McCutchen, Black, Verleger & Shea
600 Wilshire Boulevard
Los Angeles, CA 90017
(213) 624-2400
Counsel for Chemical Bank

Class A or B Debentures:
Edward L. Rothberg, Esq.
Liddell, Sapp, Zivley, Hill & LaBoon
3500 Texas Commerce Tower
Houston, Texas 77002(713) 226-1200
Counsel for Texas Commerce Bank, N.A.

DATED July 20, 1989.

BY ORDER OF THE COURT
THE HONORABLE MASSIE TILLMAN
UNITED STATES BANKRUPTCY JUDGE

ARTS

Danbury Mix

SADLER'S WELLS

At the centre of the Paul Taylor Company's fourth programme is *Danbury Mix*, set to scores by Charles Ives. It was commissioned as part of New York City Ballet's American Music Festival last spring, and danced by Taylor's troupe with the addition of NYCB's Peter Frame.

Taylor subtitles it "a collage," and its effects are of a scrapbook of national attitudes (viewed with some distaste) with a curious subtext derived from brief quotations from Taylor's own work.

The pivot of a frenetic dance action is Karla Wolfangle, seeming a close relation of the Statue of Liberty in a silver lamé trouser suit and tiara. Around her erupts the rest of the cast, black clad, who behave in the main rather badly, running, brawling, cake-walking, or pouring over the stage in a slow-motion wave of bodies.

At times it looks like Denishawn crossed with Acid House; at others as if both a society and its dancing were malformed and maltreated. There are jokes, of an acrid kind, but as the shifting textures of Ives music collide in the Circus Band Music, the action becomes even more anxious and dislocated.

Just before the curtain falls, an act drop of small black and white American flags descends:the final impression is of a disillusioned view of a nation's image of itself. It is wonderfully danced: Taylor's artists, like Taylor's dances, lead a Jekyll and Hyde existence,by turns joyous and terrifying,and convince as equally as angels and devils.

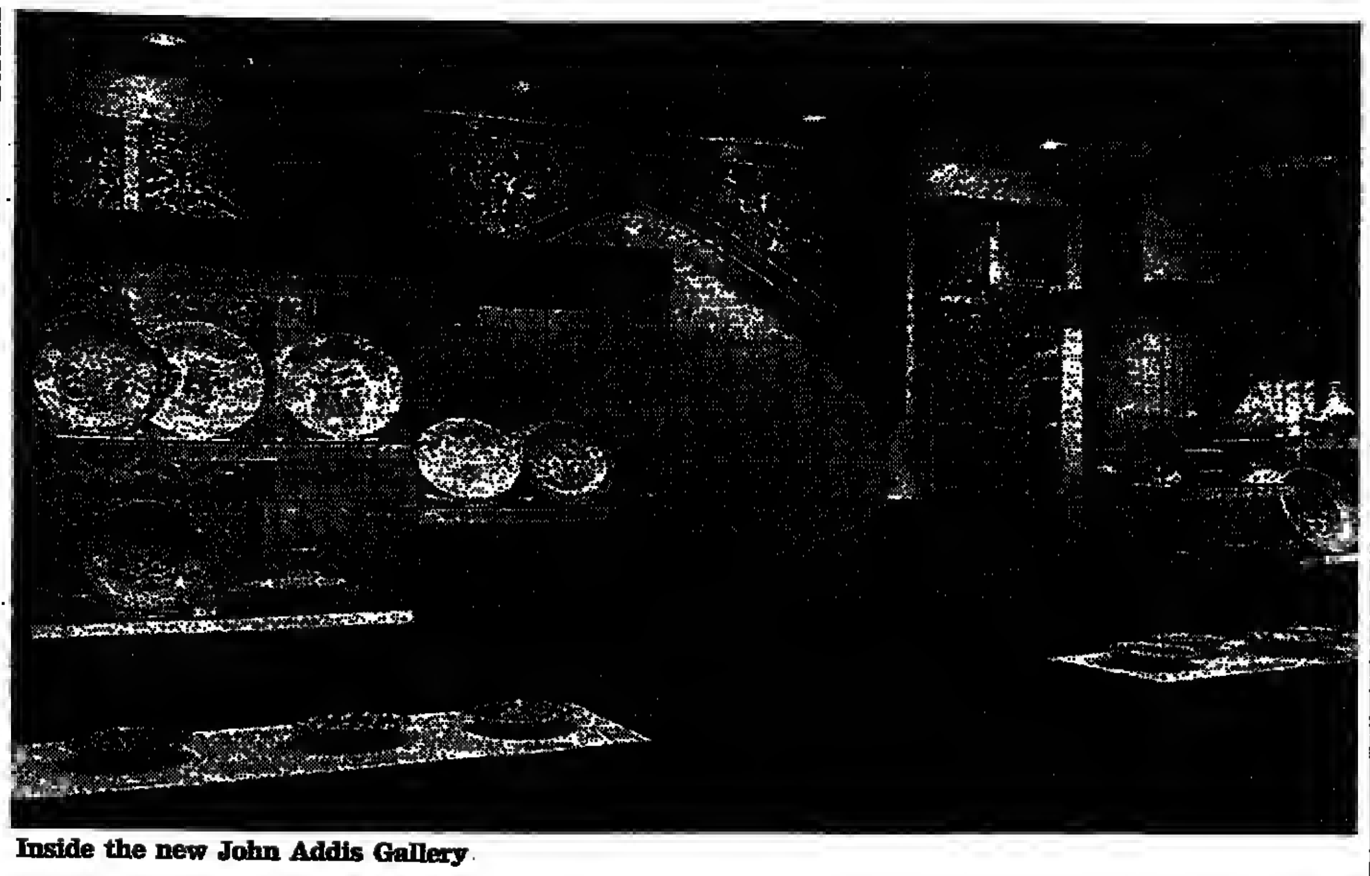
All is sunshine in *Airs*, which opens this programme, its cast obedient to Handelian melody, and as formally graceful as the choreography. Duets for the lyrical Linda Kent and Joao Mauricio,with his centre-forward's attack; for the sparkling Kate Johnson and Christopher Gillis, hero of this season; the solo taken by the serene Cathy McCann – all these are part of a choreographic treasure in which Taylor's genius for the unexpected, the sudden felicitous shift of emphasis,is an abiding marvel.

With the closing *Esplanade*, Taylor states his theme in the *first moment of the* choreography. Eight dancers take walking steps, and from that moment on there is no use of "dance" movement. Taylor makes dance from walking, from highly charged emotional mime, from falls and trips and tumbles, and from the lovely daring of his artists.

This season is proving grandly memorable for audiences in the constant revelations of Taylor as a master choreographer,in the magnificent qualities of his ensemble,in the admirable lighting by Jennifer Tipton (I hope other dance users of the Wells will see what Miss Tipton achieves), and in the distinction of the musical performances by a strong orchestra under Donald York.

It is an unsponsored *season*, which seems odd, but redounds all the more to the credit of Sadler's Wells Trust who have undertaken it. It runs until August 5, and must *not* be missed.

Clement Crisp



Inside the new John Addis Gallery

Splendours from the East

Susan Moore on the British Museum's new Islamic Gallery

Thanks to the generosity of Sir John Addis, a distinguished Sinologist and former British Ambassador in Peking, the British Museum has a new Islamic Gallery. And thanks to a succession of distinguished gifts – which constitute 80-90 per cent of the collection – from Sir Hans Sloane's founding bequest of 1753 to the outstanding Godman Hispano-Moresque and Iznik pottery which came 230 years later, his gallery houses some of the most comprehensive and important collections in the world.

His bequest – Sir John was a museum trustee 1977-83 – enables a variety of objects from the disparate lands and cultures of the Islamic world to be shown together for the first time. Intractable items, such as heavy stone or wood inscriptions, have come out of store, as has the museum's little known collection of tiles. Moghul miniatures also make their debut on permanent display, hung in a low-lit exhibition area in the centre of the gallery.

The new gallery was created out of an unpromising low-ceilinged, lower-ground floor space in the King Edward building, previously used to house the Godman collection and offices. Its completion marks the first stage of the total refurbishment of the museum's oriental galleries.

Geoff Rickup's design is low key, even minimal: the gallery is painted white, the glass showcases are simple, the display uncluttered, and the objects are allowed only the briefest of inscriptions. (A free but very brief guide is available in the gallery.)

Approaching the gallery from the marble terrace – the only touch of opulence – the range of the collection is made immediately clear. An introductory display offers a large Iznik bowl decorated in cobalt blue from Ottoman Turkey; an unglazed earthenware storage jar from Takrit, Iraq; enamelled glass mosque lamps from Mamluk Cairo; and a magnificent brass astrolabe inlaid with silver, made for the Safavid ruler of Persia and from the collection (who knows how) of his contemporary, Sloane.

From here, the display diverges. Works of art from Western Islam – Egypt to Iraq – are on the left; those from the east, from Iran to India, are on the right. The objects are arranged chronologically to enable visitors to compare contemporaneous work, but they will have to draw their own conclusions. Separate displays are devoted to coins, arms and armour, science and magic.

Not to be overlooked is the brass Blacas ewer, inlaid with silver and copper to depict scenes of life at the Mosul Court around 1232, or the gouache from the "Hamza-Nama" commissioned by the Moghul Emperor Akbar 1567-82, one of the most ambitious projects in Islamic book production. It would be almost impossible to miss the great smooth green jade terrapin found in a cistern at Allahabad in the 19th century, one of the largest surviving Islamic carved jades.

The undisputed glory of the collection, however, is the Iznik ceramics, now unparalleled in the world. It is strong on the early blue and white made after around 1480 for the Ottoman court, who appeared to have had an as insatiable a taste for Chinese blue and white porcelain as Queen Mary I.

But it is the so-called Damascus group that steals the show. Their assured patterns, of Chinoiseris or botanically correct flowers, are painted in the largest range of underglaze colourants in the whole history of ceramics, and brilliantly glazed to boot. The colours range from deep cobalt blue, brilliant turquoise and bole-red, to subtle manganese purple and grey-green.

Calligraphy has a central – and unifying – role in the arts of Islam, given the religion's dislike of figural representation. It is the subject of the inaugural, temporary exhibition, which draws together examples on tiles, earthenware vessels, silver, glass, written on paper, or carved into limestone. The continuity of the tradition is shown by a recent calligraphic screen-print, and an inscription executed in acrylic on board.

Evidence of revival, if not survival – and a welcome compensation for the paucity of textiles in the collection – is the large carpet commissioned by the museum. It was woven by a co-operative in the village of Süleymanköy as part of the DOBAG project which is reviving, William Morris style, the use of traditional weaving methods and natural dyes in carpet production in Western Turkey.

BBC Welsh Symphony

ALBERT HALL/RADIO 3

Much of the Proms' bread and butter is provided by the visits to London of the various regional orchestras. Wednesday's concert by the BBC Welsh Symphony Orchestra, the first of two, seemed to count as rather more luxurious fare. There was ensemble playing of control, spirit, and distinction in both works on the programme; under its recently appointed principal conductor, Tadaaki Otaka, the orchestra has obviously flourished.

The scoring of Mahler's Fourth Symphony allows no passengers; the spare, sharply focussed contrast of colours bucolic and mysterious demands the most carefully disciplined attack and sense of balance from every member of the band. It was a pleasure to hear such a keenly concentrated Mahler sound – not "fat," not warmly rounded in the Central European manner, but full of alertness to the mysterious play of shades and nuances under the surface of Mahler's most Classical symphony.

It was also a pleasure to hear such a surely guided unfolding of the movements. Mr Otaka is an unsentimental Mahler conductor (perhaps he guards against sentimentality even a little too rigorously: the portamento bowings were under-emphasized, and, with them, a certain measure of Mahlerian ironic inflection). But he feels with very evident strength the unities of the symphonic argument, the shape and development of the spiritual journey.

Each movement built naturally, led naturally, to its successor; the finale, sung by Joan Rodgers with ideal freshness and unsimpering sweetness of tone, summed up the special features of this marvellous work, just as it should, and also the special qualities of this admirable performance.

In the first half conductor and orchestra, and with them the subtly musical cello soloist Alexander Baillie, paid no less close or fastidious attention to *Orion and Pleiades* (1984) – a 25-minute stretch of colour-and-texture rhapsody by Mr Otaka's compatriot Toru Takemitsu.

Like all of his works it is put together with exquisite finesse, each note touched in with feather-brush precision; but like too many of them it washes over the listener, bathing him in a pleasant pretty haze and leaving behind no trace. At the risk of committing an *astronomical solecism*, I thought it 25 minutes of pure mooning.

Max Loppert

Cathedral concerts

AIX-EN-PROVENCE FESTIVAL

Many people still think of the Aix Festival as a showcase for operas, and particularly for operatic voices – in which the Aixois indeed take a passionate interest; but there is more and more to it than that. The concerts, generally held in the ancient Cathédrale Saint-Sauveur (with recitals in the cloister), are not time-fillers but central events, and their overall planning is so expert that you want to stay on from day to day: with Scheherazade-like cunning, one thing is made to lead naturally to another.

On the day I left, the Hilliard Ensemble had just begun a marvellous week's worth of one-composer noontime concerts. I heard their Pérotin; Ockeghem, Tallis, Palestrina and Schütz were to come. The Festival has been cultivating older music for some time now – André Campra, after all, was a native son. Last year I reported Aix's inspired solution to the usual cathedral-acoustic problem: a sort of giant xylophone of luminous white, inflated plastic bars is suspended above the front of the nave. It looks handsome, focuses the sound and eliminates echoes. The Hilliard voices – a mere six – penetrated the church magically, with their uncanny combination of cut-glass precision and vital intensity.

Larger forces are well accommodated too. Orchestral lines tend to broaden and blend, but solo voices rise forward of them to great effect. José Van Dam's bass-baritone, for example, in the Mendelssohn *Elijah*: a Festival choice sufficiently explained by the fact that he is on hand again as Don Alfonso in the admired revival of *Così fan tutte*, with the English Chamber Orchestra conducted by Jeffrey Tate and with Hans-Peter Blochwitz as Ferrando. All of these participated resoundingly in *Elijah*, with Charlotte Margiono and the subtle contralto Nathalie Stutzmann – two of the Three Ladies in the new *Zauberflöte* – contributing just as keenly.

Elijah can rarely have seemed less like a choral-society exercise. Tate treated it as a grand dramatic canvas, with Van Dam's majestic, complex hero at the centre. It mattered not at all that the orchestra occasionally overbore the brave, 32-strong "Choeurs du Festival" – in fact it took the academic curse off Mendelssohn's over-smooth choral manners. The "Choeurs" this summer, by the way, are British professionals under Richard Wistreich's excellent direction; their strenuous work in most the operas seemed to leave them fit and eager for all the extra concerts.

They were in superlative form for *The Seasons* of Haydn, part of a late-Haydn survey which took in the *Seven Last Words* and the *Paukenmesse*. So were the soloists, the delectable American soprano Dawn Upshaw (from Così) and (from *Die Zauberflöte*) her compatriot Kurt Streit and the bass Alfred Muff. Both the latter revealed expressive ranges and imagination merely hinted at in their Mozart roles. The conductor Armin Jordan, also from the *Flöte* – in previous years he has done *Seraglio* and *Clemenza di Tito* – built a performance of terrific energy and unabashed picturesque colour.

That was especially rewarding to hear, since in this country we know Jordan chiefly through his fine recordings of more recent but neglected music. He proves to be a classicist of parts. Three days earlier, his exposition of the *Seven Last Words of Our Saviour on the Cross* with the Ensemble Orchestral de Paris had been so clear-eyed, searching and poignant that one had to recognise that Haydn's later string-quartet version is, after all, only a second-best. With the original orchestra (cleverly varied from piece to piece: the arrival of the flute in Sonata III, for example, is extraordinarily telling) the score has symphonic depths that challenge any of his symphonies.

Marc-Antoine Charpentier's "opera" *David et Jonathas* – much like a Handel oratorio, but with far more flexibility within set numbers – got a brilliant re-creation from William Christie and his band Les Arts Florissants, with soloists who flung themselves into their roles with dramatic abandon. Christie deployed expressive devices, in innumerable instrumental touches and free-hand pacing, which were surely "speculative" but also profoundly effective. Whether this amounts to "Lepparidisation" or not I don't know, but it was hard to doubt that Charpentier would have been amazed, delighted and grateful.

David Murray

Jan Peszek in the Stary Theatre of Cracow's production of 'The Dybbuk'

Wajda in Westchester

PEPSICO SUMMERFARE FESTIVAL

America is long overdue in recognising that Eastern Europe is more than an appendage of the Soviet Union. President Bush's conversion on the road to Warsaw is a first step, but it hardly makes up for a generation's oversight. Americans desperately need more of the cultural lessons provided by Andrzej Wajda's visit with the Stary Theatre of Cracow to the Pepsico Summerfare Festival in the affluent Westchester suburbs, an hour north of New York.

Performing *The Dybbuk* and *Hamlet*, the company provides a telling insight into contemporary Poland. Szymon Anski wrote the most famous Yiddish play in 1914 when the four-century-old culture it recreates with all its cabbalistic and ritualistic strangeness was on the point of extinction. While steeped in Jewish law and custom, the plot also explores the divergent extremes of the Jewish ghetto in which a rich merchant comes between his daughter and her religious lover, resulting in the student's suicide and return to inhabit her spirit (the Dybbuk).

Though the playwright was Polish, his work was rarely seen in his native country, whose anti-Semitism has long been accused of outliving the Jews. Wajda has turned to Ernest Bryll for a dignified verse translation reminiscent of Old Polish, according to the translator's note in the programme, to dispell "the impression that a Jew must always speak funny Polish." The simultaneous translation did little to convey the effort, with loud rustling of papers and throat-clearing audible through the headsets detracting from any sense of the language.

Respect for Jewish life in Poland permeates the rich, even lush, production designed by Krystyna Zachwstowicz with its stained glass windows emitting sharp colourful shafts into the otherwise dark temple interior. Far from soft-pedalling the claustrophobic Hasidic environment, Wajda puts the community cemetery right on stage where the characters go to commune with the spirits that come alive in their midst.

Krzysztof Globisz portrays Khonon, the poor student, as a romantic hero, set apart from the other students by his seriousness and deep feelings. The star-crossed lovers, having got to know each other when the student roomed with the merchant's family, need do little more than stare at each other to convey their love – and their fate.

Anski came to the subject of the play not through religious belief but through research into folk customs. He treats with po-faced seriousness the presence of spirits who taunt the living with their demands from beyond the grave. Wajda uses the simplest devices – speaking through a curtain and the loud shattering of glass – to bring the spirits to life.

Hamlet is an altogether different exercise. In three previous productions, Wajda has concentrated on the action more than Hamlet's musings. This one, called *Hamlet IV*, goes for the Dane's contemplation. In the setting of an actor's changing room Hamlet, both plays and observes the action. The scenes not directly involving him take place behind the backdrop, a trick achieved by actually putting the audience backstage. There they sit in 175 bleacher stand chairs, while the 700-seat theatre on the other side stands idle.

This example of Polish economics would be more comprehensible if the production justified it. But Hamlet, lounging on a moth-eaten sofa or reading the script, does nothing to enhance the scenes he is not in, and after a while, having the king and queen entering from the rear in the robes, hoops and neck-ruffles of Elizabethan costumes to see him in his dressing room becomes comic. Premiered at the festival only a week after its Polish debut in Cracow, the production does not seem fully worked out.

Dubbed "the grand finale," this tenth is the last Summerfare. Pepsico is withdrawing its $2m a year support just when it seems to have found a role for itself to promote the cultures of *Eastern Europe* (after assiduously promoting its products there). Pepsi is sold in the Soviet Union in proportion to the Stolychnaya it purveys in the West, an arrangement that long antedated *perestroika* and the burgeoning possibilities of two-way traffic across the cultural divide.

Frank Lipsius

ARTS GUIDE

July 28-August 3

THEATRE

London

The Merchant of Venice (Phoenix). Dustin Hoffman's Shylock is a sympathetic, semaphore-gesturing alien in Peter Hall's fine Venetian Renaissance production, with Geraldine James as a superb Portia (836 2294).

The Black Prince (Aldwych). Ian McDiarmid gives the performance of a lifetime in Iris Murdoch's distillation of her own Hamlet novel. Witty black farce, vitriolic and entertaining (836 6404).

Ivanov (Strand). Alan Bates and Felicity Kendal lead a new ad hoc classical company in Chekhov's first play, translated by Ronald Harwood, directed by Elijah Moshinsky. Bates interestingly renders the critical suicide e Simon Gray character (836 1660). July 31-Aug 5.

London International Festival of Theatre. LIFT, the fifthbiennial festival takes place all over London during July.Recommended highlights are the Abbey Theatre of Dublin in TomMurphy's *A Whistle in the Dark* at the Royal Court (730 1745) all month and the Comédie de Genève in Strindberg's *Miss Julie* at the Lyric Hammersmith (741 2311) in the last week only. More details on 240 2428.

Anything Goes (Prince Edward). Cole Porter's silly ocean-going1930s musical has four or five marvellous songs and Elaine Paige failing to emulate Ethel Merman. Jerry Zaks's desperately bright production comes from the Lincoln Center in New York and is undemanding summertime fare (734 8951, cc 836 2428).

Single Spies (Queen's). The highlight of Alan Bennett's double bill is a comic confrontation between Prunella Scales as Her Majesty the Queen and Bennett himself as Anthony Blunt in the royal picture gallery. Clive Francis plays Guy Burgess in a rehash of Bennett's fine TV film *An Englishman Abroad* (734 1166).

M. Butterfly (Shaftesbury). Anthony Hopkins as the tortured diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York; the play is not very good but still worth seeing (379 5399).

Brigadoon (Victoria Palace). 1947 Lerner and Loewe "heather-scented" Scottish fairytale hit is handsomely revived and well sung, less frail than expected (834 1317, cc 836 2428).

Henceforward (Vaudeville). Martin Jarvis and Joanna van Gyseghem in bleakly funny and experimental Alan Ayckbourn comedy of future shock and strained marriage. A tale of obsession, devotion, computer music, women as robots, gangs on the streets and a tug-of-love (836 9987, cc 741 9999).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Lend Me a Tenor (Royale). A sprucing up in the set of a decaying town's big time opera ambitions makes a transatlantic hit of this farce, first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200).

Shirley Valentine (Booth). Pauline Collins brings her West End triumph to Broadway in Willy Russell's amusing and touching story of a Liverpool woman's awakening in the Aegean Sea. Simon Callow again directs without smoothing any of the Northern English edges that retain an authentic touch.

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including *On the Town*, *West Side Story* and *Gypsy*. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

Cats (*Winter Garden*). *Still a* sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat *whose long-time mistress was* a male Chinese spy (246 0220).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Chicago

A Funny Thing Happened on the Way to the Forum (Goodman). Stephen Sondheim's most popular musical, for which he wrote both music and lyrics, stars Louis DiCrescenzo as Pseudolus in Burt Shevelove and Larry Gelbart's adaptation of Plautus. Ends Aug 6.

Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy Loudon, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

Les Miserables (Auditorium). The international spectacle has settled in for a long stay by the Great Lakes (922 2110).

Tokyo

Les Miserables. Imperial Theatre (201 7777). Strongly-cast revival (in Japanese) of the stirring musical of the storming of the Paris barricades. The production is a recreation by Trevor Nunn and John Caird of their London *original – complete with John* Gunter's superb set and lighting.

Noh. National Noh Theatre (Wed at 1pm) (423 1331). *Hanjo (The Girl whose Lover Went Away)*, by the great 15th century noh master Zeami. Plus a kyogen comic interlude. Japan's most esoteric art form is not to everyone's taste, but everyone should see it at least once, since it is the world's oldest living form of drama of any importance.

FINANCIAL TIMES
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Reform of safeguards

OVERSHADOWED BY the more eye-catching issues of farm reform and trade in services, the debate on safeguards is actually one of the most important items on the agenda of the Uruguay Round of multilateral trade liberalisation talks. *Its outcome will* be central to the success or failure of the round as a whole.

The term "safeguards" is trade policy shorthand for the emergency measures that countries take to protect their industries against serious injury caused by fairly traded imports. Existing rules in this area are flouted by the main trading powers, which bypass the General Agreement on Tariffs and Trade, creating a web of such "grey area" *measures* as voluntary export restraints (VERs).

The proximate aim of reform would be to bring safeguard action within the Gatt, but the ultimate aim would be to improve the capacity of economies to adjust to change. It follows that bringing present behaviour within the Gatt would not itself be a solution. None the less, a liberalising reform of safeguards is important. To take one example, without such reform the phasing-out of the Multi-Fibre Arrangement, which governs world trade in textiles, will not be secured.

Surge of imports

Securing reform has proved intensely difficult, the main problem being that a formulation likely to bring grey area measures within the Gatt is regarded by most small countries as dangerously permissive. The principal controversy is over selectivity – the right to introduce protection on a discriminatory basis.

Industrial powers like the US and the European Community wish to avoid harming the interests of traditional suppliers when a surge of imports comes from just a few sources. Developing countries fear that, *far from incorporating textiles* within the Gatt, a "reform" that permits selectivity would effectively incorporate the Gatt within the MFA.

Some elements of reform would be more readily agreed: *Gatt-consistent* safeguard protection might be introduced without consultation with, compensation of, or retaliation by one's trading partners; it should be time-bound and degressive; and it should be introduced only after serious injury has been proved. The instruments of protection should themselves be transparent (*preferably* tariffs or auctioned quotas). Finally, longer term protection should be accompanied by a commitment to adjustment.

Ideas on these lines appear in the EC's proposals to the negotiating group on safeguards. Some of them have been taken up by Mr George Maciel, the group's chairman, whose paper is now the focal point for discussion.

MFA experience

Once the above elements have been agreed, the question of selectivity might be resolved by permitting countries to agree to selective action, but denying importers the right to impose it unilaterally. The view that the right to impose selectivity can be controlled by compensation requirements, time limits and adjustment obligations is implausible, as has been suggested by experience with the MFA. Under consensual selectivity, however, any restraint would necessarily be judged better by the exporter than the alternative of global protection. Any such measures are likely to be of modest economic concern.

In the long term, the best way of curbing costly forms of protection is to make them more transparent. The Gatt should be given an independent, authoritative and public role in monitoring safeguard actions to ensure they are applied fairly, without duress and in conformity with the rules. Its main function would be to increase transparency and draw attention to abuses.

Equally important, requests for safeguard protection need to be evaluated by domestic procedures that assess and publicise not merely the injury *caused by imports* but the injury likely to be caused by safeguard protection. In the last resort, costly forms of protection like VERs are unlikely to be curbed by international agreement alone. They may, however, become unacceptable to a more enlightened public opinion.

Planning for the countryside

AMONG THE issues on the desk of Mr Chris Patten, the UK's new Environment Secretary, is one which has so far received little publicity but needs urgent attention. This is the Government's policy towards the countryside. Unless changes are made soon, damage could be caused to many a landscape throughout Britain at a time when an increasingly leisured population wants to enjoy more of its benefits, not less.

At the heart of the problem is a conflict between the belief in a free enterprise economy which encourages development in rural areas and the recognition that a great deal of Britain's landscape is worth preserving "for its own sake".

Following the wartime Scott Commission on land use, farmland was given vigorous protection as the prime source of food, while in much of the postwar period residential development has been subject to a well-defined planning system.

However, against today's background of declining need for agricultural land its protection from non-farming development has been weakened. Yet, as is shown by the case of Foxton Wood, the 4,800-house development in the Hampshire countryside which the planners turned down but former Environment Secretary Nicholas Ridley said this month he was "minded" to allow, there is great controversy over country residential development.

Turning point

As far as farmland is concerned, the turning point came early in 1987 with the controversial Alternative Land Use and Rural Enterprise (Alure) programme. Now a new proposal has emerged which, if allowed to become law as Mr Ridley intended, could lead to haphazard development across the country and further weaken the planning *system.*

In a consultative paper issued in May, the DoE proposed to extend the present exemption from planning permission for agricultural buildings, which is now enjoyed by farmers and landowners (and, at least in theory, by anyone else owning just under an acre), to a wide range of non-farming activities. "Theme" and amusement parks, zoos, safari parks, ballooning, flying and the repair of machinery together with "associated catering facilities" are among them.

While the proposals have been publicly welcomed by farmers and landowners, privately there is anxiety that the plethora of developments which could ensue might further damage their standing with the public. Conservation groups like the Council for the Protection of Rural England are deeply opposed to the proposals.

Wider threats

The critics note the wider threats to the countryside which could flow from the likely sale of now protected land by the privatised water and electricity industries. The Government has also proposed important changes in the whole planning system outside the big cities.

In January, the Government published a white paper, intended to become law in the next parliamentary session, to abolish county structure plans, instead making it mandatory for over 300 district councils to produce local plans for development.

In the sense that the districts are often most protective of the countryside this might seem no bad thing. The trouble is that the move is being interpreted as a dangerous weakening of strategic planning across the country just at a time when a strategic approach to a range of issues from the Channel Tunnel to new roads, housing and the countryside are badly needed.

Some conflict between a policy which seeks both to encourage rural development and to protect the countryside is inevitable. It would be unrealistic to expect Mrs Thatcher's Government to adopt the sort of directed planning which characterised the post-war years.

But Mr Patten – with the help of his new colleague at agriculture, Mr John Gummer, who has made a point in his first week of expressing his concern for the countryside – must look again at May's consultative paper. Britain's landscape is too fragile a resource to allow landowners to escape the controls which others must rightly endure.

Guy de Jonquières on how European monetary union might benefit industry

The attraction of greater certainty

Of all the constituencies which would be affected by economic and monetary union, none stands potentially to reap more direct practical advantages than European business, which has long grumbled about the costs and uncertainties of coping with different, fluctuating currencies.

Yet any attempt to identify the tangible benefits which European monetary union (Emu) might bring faces two immediate obstacles. One is that *it is still much too distant* a goal to feature in companies' planning.

Some, such as St Gobain, the large French pipe and glass group, already use the European currency unit on a limited basis – for example, to set internal transfer prices – and have issued Ecu-denominated debt.

However, they are a minority. A poll of 700 European companies last year by the Association for Monetary Union in Europe, a pressure group formed by corporate enthusiasts of Emu, found that only 44 had ever used the Ecu for any purpose.

The second problem is that, despite extensive academic research over many years, little is known for sure about how currencies influence business behaviour. "The question has consistently defeated economists," says one European Commission official. While confident that Emu would provide a boost to European industry, he admits that such optimism is based more on "inspired intuition" than on any empirical evidence.

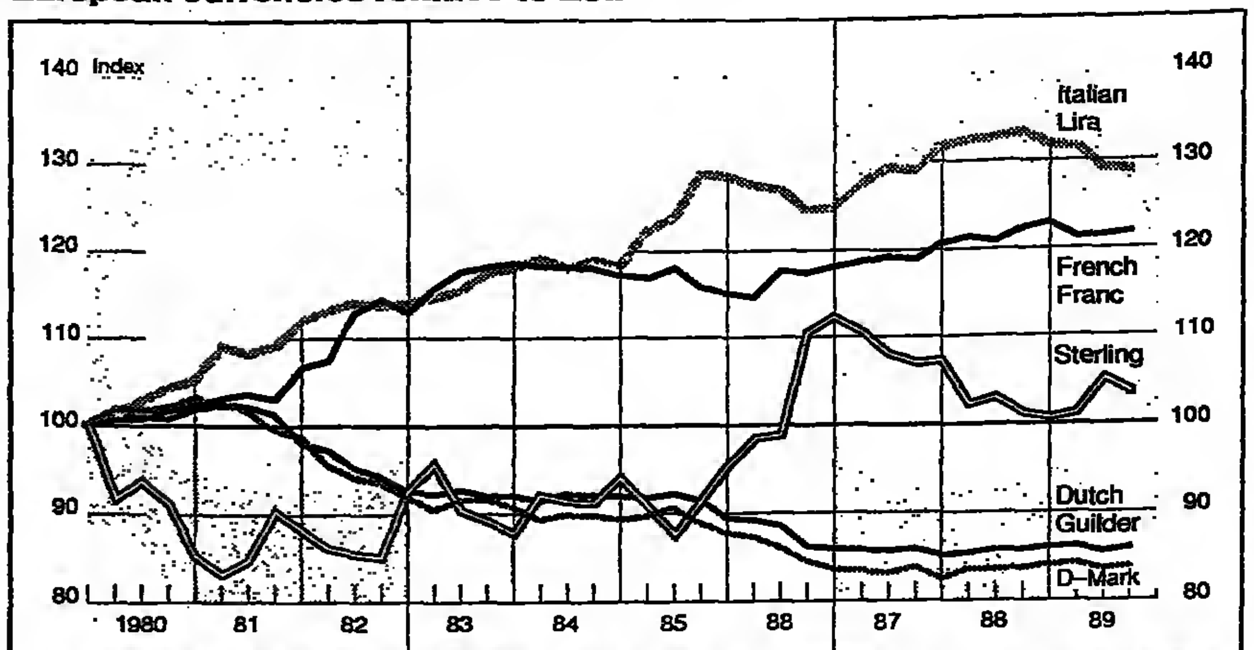
A common currency would, of course, simplify life for companies doing business across European borders by eliminating foreign exchange transactions. That would remove an appreciable burden from smaller firms, which often pay stiff bank charges for such services and lack the expertise required to hedge effectively against adverse currency movements.

But the cost savings would be much more modest for big companies, which are better placed to drive a keen bargain with banks. Many multinational groups handle foreign exchange in-house through their treasury departments, which deal directly in the markets. By using *sophisticated systems* to "net out" foreign currency assets and liabilities, they also minimise the amount of cash they need to transfer.

Of much greater concern to many big companies are the difficulties of planning against a background of volatile exchange rates. "Today, almost all our business decisions are influenced by currency movements. It all consumes a huge amount of management attention, above all in a business where margins are slim," says Mr Dick Snyders, finance director of Philips, the Dutch electrical and electronics group.

Nowhere are the uncertainties more *acute than in decisions* on plant location. "You can do all your work on labour costs and productivity, but exchange rates can totally change the cost equation," says Mr Murray Reichenstein, vice president of finance at Ford Europe.

European currencies relative to Ecu



Ford can and *does shift* work between production bases and suppliers in different countries in response to exchange rates, though relocation on a large scale can be justified only if a currency stays out of line for a long period. The problem is to know *when an adverse exchange rate* move is more than just a temporary blip – and Mr Reichenstein readily admits that Ford's predictive powers are from infallible. "Over a 10-year period – boy, we really missed it," he says.

Bosch, the West German vehicle components supplier which recently announced plans to huild a £100m plant in Wales, says it is assuming that sterling will steadily depreciate against the D-Mark in the medium term. Unless that happens, persistence of the current gap between UK and German inflation rates will be "bad news for German investors in Britain," according to Bosch's chief economist, Dr Adolf Ahnefeld.

Yet it is possible to exaggerate the overall impact of fluctuating currencies on European industry – for three reasons. First, even in a single market, decisions on plant location in some sectors will almost certainly continue to he dictated less hy exchange rates and relative costs than *by the need to be close to customers.* This is true, for example, of the oil and hulk chemical industries, which have set np their plants to serve defined regional markets and are highly sensitive to transport costs.

GKN, the British engineering group, says most of its European customers for vehicle drive shafts require them produced near their factories. "We haven't got the freedom to say *which countries* we'll invest in," says Mr Bill McLuskie, GKN's group treasurer. "You either build the plants where they are needed or not at all."

Secondly, it is widely agreed that currency considerations play only a minor role in large cross-border acquisitions. "When a very big group has decided on a strategically important move, exchange rates are not so important," according to Mrs Rose-Marie Yatsimirsky, chief economist at CGE, the French electrical group which three years ago acquired control of the European electronics businesses of ITT of the US.

Third, and most important, most of European industry has not had for some time a serious problem with currency volatility. It has a *sterling* problem – and that is chiefly a headache for UK businessmen. Two surveys by the Confederation of British Industry this year found that more UK companies are worried about the exchange rate than about interest rates.

This sort of anxiety is much less or even non-existent in countries such as France and Germany, which are full members of the European Monetary System. More than 40 per cent of both these countries' trade is with other EMS members.

"When French businessmen talk about currency movements these days, they mean the dollar and the yen. They aren't really troubled by fluctuations within Europe," says Mr *Philippe Combin,* financial director of the Patronat, the French employers' federation. The BDI, its German equivalent, says most of its members are happy with the stability provided by the EMS.

Philips and ICI, the large UK chemicals group, *have become so* accustomed to the stability of currencies in the inner EMS bands that they no longer bother to arrange forward cover on transactions between most of them. Mr Reichenstein says that if all European currencies fluctuated by no more than 2 per cent, the exchange rate problem would be largely solved for Ford.

So, from the standpoint of European business, is Emu really necessary? What would it add that could not be achieved by subjecting all currencies to the disciplines of the EMS? The main answer is increased certainty. EMS central rates have not been adjusted for more than two years, but doubts are growing about how much longer this situation can last. The system may come under renewed strain after EC capital controls are lifted next year – all the more so if the performance of European economies begins to diverge sharply. There is also a risk that parity changes would be more frequent if sterling became a full EMS member.

By locking exchange rates together, monetary union would guarantee more permanent stability. Even more important, in the view of some European businessmen, such an arrangement would also enforce policy disciplines on governments which might lead to increased economic convergence and lower interest rates.

For most of European industry, the detailed mechanics of monetary union are a side issue : what matters is that, if the plan goes ahead, it should produce a *system which is credible* and inspires confidence. Until they have that assurance, even the most enthusiastic European businessmen are unlikely to accord Emu the importance in medium-term corporate strategies which many are giving to 1992.

MOVES TOWARDS European monetary union would lift a heavy burden from the backs of Europe's smaller businesses, most of which lack the expertise to deal with the complexities of foreign exchange markets.

Continental European companies are already benefiting from the stability provided hy the European Monetary System. British hnsinesses and continental firms which sell in the UK wonld welcome the inclusion of sterling.

Smaller hnsinesses pay a high cost for converting small amounts of foreign currencies, says Ms Jane Waters, a foreign exchange consultant. Banks typically charge 1 per cent on small deals of up to $10,000 (£6,060) but only 0.1 per cent on larger amounts.

Van Halteren, a Dutch meat processor with annual sales of £23m, pays about £25,000 each year to hedge the riskier currencies, such as sterling, in which it does business, says Mr Cor de Mas, the managing director. Currencies within EMS pose less of a problem. Sales to Germany are practically risk free because of the close links of the Dutch and German cnrrencies. The French franc and Italian lira do occasionally run into currency turbulence but, according to Mr de Mas: "You can smell the smoke if they bounce against the EMS limit."

Mr Michael Pearce, a consultant advising smaller companies on foreign exchange risks, says ha sometimes recommends that his larger clients set outgoings in an EMS currency against income from any other EMS member currency and not just against receivables in the same individual currency.

Small firms are increasingly able to deal with small fluctuations between currencies within currency blocks such as the EMS, says Mr Lister Vickery, managing director of Diadem, a French compnterised graphics company with sales of Ffr 30m (£2.87m). What worries Mr Vickery are the wider swings between the European currencies and sterling and the dollar. "These currencies belt off into the nether regions and stay there for three years," he says. "There is no pendulum effect to balance things ont." Smaller businesses throughout Europe are very vulnerable to these movements.

"The foreign exchange markets appear arcane so people shy away from them," comments Mr Pearce. He thought he would be dealing with clients with turnover of between £500,000 and £5m hnt has found that larger companies in the £5m-to-£50m range are his main customers.

Charles Letts, a British publisher of diaries and educational books, has always needed to be canny in its dealings with foreign currencies. It has to wait for a year between taking an order for its diaries and receiving payment.

On Mr Pearce's advice, Letts now hnilds currency forecasts into the hnsiness plan stage rather than waiting until the time of shipment. It is also starting to use more flexible options instead of simple forward contracts to hedge its risks and is setting foreign currency spending against receipts to rednce overall exposure.

Frightened off using the textbook exchange hedges – forward transactions or currency option arrangements – because of their perceived complexity and cost, many small businesses simply take evasive action. They invoice customers in their own (the snpplier's) currency; some delay making transfers of funds until currency rates are favourable; while others boost prices to cover the currency risk.

All these manoeuvres carry risks. Better hy far, small hnsiness owners argue, to establish a foreign exchange framework which allows companies to get on with publishing diaries or selling computer software rather than watching currency movements.

Charles Batchelor

OBSERVER

Diplomats talking

■ Foreign diplomats have been talking frankly about Britain's place in international diplomacy, and their views are not entirely flattering. For example, being posted to London *is now regarded as more a* reward than a challenge. And more foreign countries now have missions in Bonn than in the British capital.

The diplomats express themselves "baffled" abont British social behaviour – a *mixture* of orderly, courteous queueing and uncontrollahle football hooliganism. They are also puzzled about British foreign policy. There is a unanimous belief that the country is not making the most of its opportunities in Europe.

On the other hand, London is still a key base for foreign journalists. The US has 120 permanent correspondents here: Japan has 70, West Germany 60 and France 38.

The facts and views emerge from the summer issue of International Affairs, the quarterly review published hy Chatham House. They have been compiled hy Mette MacRae, *a Danish freelance* journalist who normally writes under a pseudonym, hut is this time using her real name as the wife of Christopher MacRae, a British diplomat on secondment to the Cabinet Office.

MacRae totted up the numbers, then went round talking to heads of mission and their staff. The numbers themselves are quite striking: the US employs twice as many diplomatic staff in Paris than in London, something to do with the language perhaps. But it still has the largest diplomatic *presence in Britain: followed,* oddly enough, by Egypt.

London is awash with military attachés – they account for one third of all diplomats in most South American embassies. This is because of *London's importance as an* arms procurement centre. London is also regarded as a source of international intelligence.

The diplomats were not exactly rude. They did wonder, *however, why* the originator of the world's foremost language "should so persistently neglect the value of education and culture". Between them they described British education as "backward", "inadequate" and a "downright scandal". They also thought that Britain continued to be complacent, despite the Thatcher years.

Their biggest regret was about the country's lack of European *commitment.* All diplomats questioned, including those from the Commonwealth, said that Britain could best exert its influence through increasing European political cooperation.

There was a final compliment to the Foreign Office. Foreign diplomats like working in London because they admire the skills of the British diplomatic and intelligence services. These were much higher than *in Washington, they said.*

"He must have caught the scent of blood from Number 10."

Drugs at base

■ Julio Londoño, the Colombian Foreign Minister, was detained hy Customs and Immigration officials in Washington the other day because virtually all visitors from Latin America, and *perhaps* Colombia especially, are being searched for drugs.

In Londoño's case, they may have gone too far. They used a metal rod to prod his suitcase, damaging his shirts and shoes, though official apologies were eventually made by the State Department.

Another Latin American, Pablo Grinberg, is trying to tackle the drug problem from the home base. Grinberg is a Peruvian journalist whose campaign against drug-traffickers has caused him and his family to face increasing threats and intimidation. He is in Washington this week talking to fellow journalists and *Congressmen, trying* to drum up support for an international symposium on the close links hetween the drugs trade and terrorism which opens in Lima from October 1-7.

The conference is being organised by the Association of Journalists in Peru who want to attract international attention to their country's plight as it struggles to fight the drug traffickers and the Shining Path terrorists who, Grinberg says, have killed 15,000 people. It will include two day-trips to the coca fields.

Grinberg works for Caretas, a mass circulation news magazine in Peru. Yet despite his knowledge of the subject, he has found it almost impossible to gain access to senior US officials, including William Bennett, the Bush administration's key man on drugs.

Bad maps

■ You can knock several minutes off the hour and a half walk from just south of the Southwark Bridge to Notting Hill Gate that we recorded last week, and I am grateful to a reader in South London for pointing this out. The fast track is to cross not the Westminster, but the Hungerford Bridge, then to cut through the Horseguards Arch and ont into the Parade Ground, where you may even be saluted en route.

The Hungerford Bridge has a minor hazard of its own. There is almost a moral obligation to pay a kind of toll charge to London's homeless, who occupy it in some force.

The reader, however, makes a much wider point. This is *that* most of us *carry* a distorted map of London in our heads. We assume that, apart from a few bends, the Thames runs east-west. In fact, around Westminster it runs north-south. Thus although the Financial Times has moved south of the river, it is still just about north of Trafalgar Square.

One of the reasons for the distorted mental msp is thet we tend to take it from the plan of the London Underground, which is how many of us came to know the capital in the first place, but which is thoroughly misleading and takes no account of the course of ths Thames.

Another reason, which our reader does not mention, is we can be misled hy the A-Z street map, dotting from page *to page and never showing the* big picture. There are very few good maps of London as a whole. Someone might fill the gap.

Dyslexic

■ Sign over a second-hand copy of a Dictionary of Modern English Usage on a stall in a Lambeth market: "Say it with Fowler's."

Philip Stephens reflects on the political fallout from the British Cabinet reshuffle

A wrong move by Mrs Thatcher

The cracks appeared in Mrs Margaret Thatcher's Cabinet reshuffle even before the paint was dry.

The intended image beamed into a disgruntled nation's sitting rooms – of fresh faces bringing new energy and sharpened presentational skills to a tired and unpopular Government – lasted just a few hours.

Instead the electorate was offered a rare, and distasteful, glimpse into the intrigue and distrust behind the reluctant departure of Sir Geoffrey Howe from the Foreign Office.

Applause from Conservative MPs for the appointments of Mr Kenneth Baker to the party chairmanship, Mr Chris Patten to Environment and Mr John Major to the Foreign Office quickly gave way to dismay.

The offer to Sir Geoffrey of Mr Douglas Hurd's job at the Home Office – and Downing Street's denigration of his new role as Leader of the Commons and deputy Prime Minister – left Mrs Thatcher looking ruthless and authoritarian rather than newly responsive to the mood of the country. As one veteran at Westminster of countless reshuffles put it, the voters saw that the Prime Minister "had left blood on the walls as well as on the carpet."

Her relations with Mr Nigel Lawson, the Chancellor, have long been marred by differences over exchange rate policy and the European Monetary System. This week she was seen to have further alienated Sir Geoffrey and undermined Mr Hurd.

A middle-ranking minister confessed that the mood of suspicion was such that when he had received news of his reappointment he had instantly "checked the fine print" of his reponsibilities.

He, like his colleagues, was looking forward with audible relief to the start of the long summer parliamentary recess, concluding that the disclosures left the initial impact among the electorate of the reshuffle, as, at best, neutral.

That is hardly encouraging for a Government trailing the newly moderate and confident Labour party by 10 points in the opinion polls; more especially when it is still committed to another wave of unpopular policies ranging from water privatisation, to health service reform, to the poll tax.

Ministers are hoping that the image of blood-letting will quickly fade, leaving the new ministerial stars to make their mark.

Sir Geoffrey is being urged by friends to put the disappointment behind him and to concentrate on trying to build up his new role into one comparable to that enjoyed until 18 months ago by Lord Whitelaw. Mr Hurd, offered public reassurance by Mrs Thatcher about his future, has taken the slight against him with quiet dignity.

Thoughtful Labour MPs agree that, over time, the new Cabinet – tilting the Government's political balance towards the centre – will present it with a much more formidable target than it has become accustomed to in recent months.

Water privatisation and the poll tax will probably never be popular, but few ministers are better equipped with the political and presentational skills needed to limit the damage than Mr Patten.

His appointment brought almost universal praise from the Conservative backbenches – even from those who are acutely distrustful of his liberal views on the economy and social policy.

Mr Nicholas Ridley, despite his formidable intellect, seemed to be fighting as hard as he could to lose the battle for the ever-expanding "Green vote." His sideways move to the Department of Trade and Industry, one rather dismayed member of Labour's front bench team commented, may have saved Mrs Thatcher a million votes.

Similarly Mr Cecil Parkinson's appointment to Transport and the replacement of Mr John Moore at Social Security will strengthen two other important weak spots.

Mr Baker, probably the smoothest political operator in the senior ranks of the Government, will bring new energy and skill to the party machine and should boost the sagging morale of its workers in the country.

As a fellow minister put it in an oblique reference to Mr Baker's longer-term ambitions: "No one wants us or needs us to win the next election more than he does."

Despite the expectation that he would win significant promotion, Mr Major's dramatic move to the Foreign Office remains something of a mystery to many of his colleagues.

Mrs Thatcher was keen to defuse Sir Geoffrey's opposition to her policies towards Europe – and to break the alliance he had forged on the issue with Mr Lawson. But her thoughts may have been on the succession as much as on foreign policy.

Once she had accepted that Mr Baker should get the party chairmanship she wanted to ensure that he was not immediately hailed as the chosen Heir Apparent.

There is a question mark over whether the inexperienced Mr Major – 'a Cabinet minister for only two years – can meet the challenge of running one of the most important departments of state; and over whether he can resist Downing Street's ever-tightening grip on foreign policy.

His friends insist that he is bright enough to know that it would be disastrous both for his own future and for the Government if he became a cipher for Mrs Thatcher's views.

During his time at the Treasury he proved himself both politically skilful and sensitive. Enemies as well as friends give him credit for acute political antennae and for his refreshing disdain for ideologues.

But the success or otherwise of the new, more telegenic and sympathetic, ministers in lifting the Government's spirits and in restoring its fortunes in the opinion polls will not rest in their own hands.

Like their predecessors they will be reliant on Mr Lawson, one of the few Cabinet ministers untouched – save for the loss of his country house – by this week's reshuffle.

Behind the jitters over health service reform, over the environment, over water and electricity privatisation, and over the poll tax, voters and ministers alike share a much deeper concern – over the outlook for the economy.

The conventional wisdom is that if Mr Lawson manages, as he has promised, to bring down inflation and interest rates, most of the other problems can be neutralised if not solved by spending just a fraction of the Treasury's massive budget surplus.

Mrs Thatcher's autocratic style and her apparently disdainful treatment of senior ministers should become a Westminster sideshow if voters see mortgage costs falling, income tax rates coming down and their incomes climbing.

Handling the pressures for closer European integration – as Mrs Thatcher's angry response to President François Mitterrand made clear yesterday – may still prove tricky.

The Prime Minister may use Mr Major's appointment as an excuse to retreat from the compromise she accepted at the Madrid summit. But the electorate are more interested in better schools and hospitals and in cuts in the basic rate of income tax than in the EMS.

The problem is that the Treasury is far less sanguine than it publicly admits about whether and how soon Mr Lawson can deliver what he has promised.

It is predicting fairly confidently that the annual inflation rate, as measured by the retail prices index, will come down to around 6 per cent by the end of the year.

The recent ratcheting up of the level of pay settlements, however, has reinforced its fears that the rate may then stick at just below that level for most of 1990.

For a Government that started its third term of office with prices rising by only 4 per cent a year and which has promised to eliminate inflation entirely, that is simply not good enough.

At best it would mean mean borrowing costs remaining close to their present levels for much, if not all, of next year and a continuing squeeze on the growth in real incomes.

Just as importantly it would also imply that the Treasury would refuse to deliver the major relaxation of the constraints on public spending which many ministers assume will come next year.

So Mr Kenneth Clarke could find himself trying to sell his NHS reforms without enough money to buy off the medical professions, or to assure a sceptical public that he is ready to pay for more doctors and incubators as well as accountants and computers.

Mr Patten may have to depend as much on his natural charm as on extra cash to sweeten the bitter electoral pill presented by the poll tax. Mr John MacGregor, newly installed at Education, could discover he has been left with a brand new core curriculum without enough teachers to deliver it.

If the Treasury's pessimism – and it is shared by Mrs Thatcher's advisers in Downing Street – proves justified, the Prime Minister will also find it much harder than she might have hoped to erase the political damage inflicted by this week's revelations.

Sir Geoffrey's ambitions have not been blunted and his strong standing in the party was graphically underlined again by the noisy welcome he received from Conservatives in the Commons yesterday. His views on the need for Britain to take a more positive approach to its role in the European Community are firmly held and widely shared on the Tory backbenches.

Mr Hurd has never been close to the Prime Minister, but his respect for her has been diminished. Mr Lawson is thought likely to want to leave the Government when he manages to get inflation down and is offered a suitable job in the private sector.

Back in 1985, when the economy was booming, inflation was under control and the Labour Party was dogged by its own bitter in-fighting, Mrs Thatcher could probably have shrugged off such internal dissent. It is far less certain she will be able to do so now.

LOMBARD

The world's worst tax

By Michael Prowse

POLITICIANS cannot afford to have principles. So Mr Christopher Patten, the new Environment Secretary, is probably not too worried that he will have to preside over the introduction in England and Wales of *the community* charge or poll tax. He is already uttering banalities worthy of the tabloid press, such as "the community charge will put the community in charge." Being shrewd and ambitious, he will do everything in his power to smooth the transition from domestic rates. Don't be surprised if the "safety net" proposals announced last week by Mr Nicholas Ridley, his predecessor, are made more generous.

But if Mr Patten manages to minimise opposition to the poll tax, he will have scored a *hollow* victory. To gull people into tamely accepting a morally indefensible and chronically inefficient form of taxation can hardly be a source of pride. "I put the clock back 500 years, undermined local government finance and introduced the crudest form of tax found anywhere in the developed world," is not the sort of remark likely to impress the grandchildren.

It cannot be right to say that all adults living in a neighbourhood should pay the same flat charge for local authority services. Nobody would attempt to defend such a principle at the national level: the most neo-libertarians demand is a tax system *proportional* to income or wealth. The Government's claim that it is catering for differing ability to pay – through its complex system of rebates for the poorest – deserves nothing but contempt. Nurses with small incomes and tiny flats will be paying the same as millionaire landowners.

The fact that rebates are being extended to about 10m of the poorest merely demonstrates the idiocy of the original proposal. It was absurd to insist that the least well off, including those on subsistence state income, must be made liable to taxes which everybody knows they cannot pay. The Government's policy was once to *raise* tax thresholds and reduce the numbers forced into humiliating dependence on means-tested benefits. The poll tax will do the exact opposite, while causing a significant deterioration in work incentives.

Never mind, Mr Patten will argue, it will serve a Higher Purpose: that of local accountability. A community needs a flat rate levy in order to be able to take charge of its affairs. Really. The poll tax is unique to Britain. Yet local communities in countries as diverse as Sweden, Japan and the US manage to control their spending without recourse to medieval levies – and without the UK's extraordinary battery of central government controls.

The "reforms" which Mr Patten is now stoutly defending leave local councils in control of only about a quarter of their revenue. (Business rates in future will be centrally determined.) This would be an absurd state of affairs even if the local tax were robust and fair. It means that if local people want to spend 5 per cent more than London-based Mr Patten decides is proper, they have to raise the poll tax by 20 per cent. Because the levy is flat rate, it will fall disproportionately on the low paid. Yet much local spending, for example on community care and housing subsidies, is a response to unmet needs of the poorest in the community. In other words, councils will not be able to help the poor without penalising those on low incomes.

Many people oppose the poll tax but believe continued opposition is a waste of time. This is unnecessarily apathetic. As Peter Esam and Carey Oppenheim argue in their new book*, the rational response is to search for an alternative form of local taxation, based on ability to pay, which provides a secure base for local spending. My own view is that some form of local property tax is essential, but that it could be supplemented by a progressive income tax. One thing is certain, the shoddy system of local government finance invented by Mr Kenneth Baker, the Tories' smiling party chairman, will not outlive the 1990s.

**A Charge on the Community. £5.95. Available from CPAG, 1-5 Bath Street, London EC1.*

LETTERS

'Its own worst enemy'

From Mr Walter C. Patterson

Sir, David Fishlock (July 25) gives "anti-nuclear campaigners" too much credit. The difficulties British Nuclear Fuels encountered in reprocessing Magnox fuel in the early 1970s did nothing to "launch nuclear fuel reprocessing into the public arena;" BNFL kept not only the public but even the specialist trade press like Nucleonics Week in the dark about these difficulties.

Not until the Windscale inquiry of 1977 was it possible to piece together the full story, when Friends of the Earth (FOE) cross-examined BNFL witnesses.

I know of no basis for Mr Fishlock's assertion that "anti-nuclear campaigners recognised that they could halt Magnox reactor operations if they could prevent reprocessing of its fuels". On tha contrary, the focus of controversy from 1975 onwards was the proposed Thermal Oxide Reprocessing Plant (THORP) – for oxide fuel, not *Magnox* fuel. Subsequent developments have borne out essentially all the criticisms put forward in evidence by FOE. Reprocessing oxide fuel is unnecessary and uneconomic, and complicates nuclear waste management; BNFL's cost-plus contract to reprocess fuel from advanced gas-cooled reactors 9AGRs) may help to make the AGRs fully as unappetising to potential investors as the Magnox units were acknowledged to be.

But the nuclear industry'a difficulties are entirely of its own making. If it had listened to the critics, instead of attempting to discredit them, it might not now be in such a terminal mess. The nuclear industry has always been its own worst enemy; the harm it has done itself may now be irreparable.

Walter C. Patterson
10 Chesham Road,
Amersham, Buckinghamshire

The EC could knit it all together

From Mr J.A. Nightingale

Sir, Your report of the EC's proposals to the Gatt on world trade in textiles and clothing rightly stresses the link between the future of the multi fibre arrangement (MFA) and proven progress in strengthening Gatt rules and disciplines. EC backing for this linkage is welcome.

The UK apparel, knitting and textile industries are striving to achieve international competitivsnass by investment, high productivity and good management. The Gatt's tolerance of competition based on dumping, export subsidies, theft of intellectual property, protectionist tariffs and blanket import bans is unacceptable. Real and demonstrable progress must be made in removing these distortions from international trading.

Any idea that the MFA can be relaxed without resolving these other issues is illusory.

Allan Nightingale
Apparel, Knitting & Textiles Alliance,
Oxford Circus, W1.

Odds seem in favour of more urban roads

From Mr David Lowe-Watson.

Sir, Mr Peter Bottomley, formerly Minister for Roads and Traffic, assures us that he consideres important urban road building only as a last resort (Letters, July 22).

But how does he decide whether all alternatives are inadequate and the "last resort" has to be adopted?

Mr John Wakeham (Letters, June 6) pointed out that some alternatives were excluded for political reasons, while more rigorous criteria are used for rail than for road schemes.

Mr A.C. Davey (Letters, July 22) showed that public land to be used for road schemes is treated as having nil value.

The chairman of the Countryside Commission said earlier this year that, at a public inquiry, objectors who want to argue in favour of an alternative "start off with an in-built disadvantage" because the inspector can only decide for or against the scheme before him.

Can the Department of Transport honestly deny that the cards are stacked?

David Lowe-Watson
68 Milton Park, N6

Picking a way through monetarism

From Mr Kevin Gardiner.

Sir, "City economists do not ask basic questions," says Frank Blackaby (July 26), before providing a muddled answer to his own pretty basic question, "what is the function of interest rates?"

He suggests that the UK Government's monetary policy depends for its success on month-to-month variation in "people's preference for immediate as against eventual consumption."

I should have said that it depends on precisely the opposite – but then I'm a City economist and I would not have asked the question.

Who is the more sensational and myopic – the analyst who suggests that the authorities are in fact fairly pragmatic these days and that the UK economy will probably muddle through for a bit longer, or the crisis-minded academic who persists in posing an old-fashioned and false dilemma between immediate recession and inflation?

Kevin Gardiner
S.G. Warburg Securities,
1 Finsbury Avenue, EC2.

From Mr W. Grey.

Sir, Mr Frank Blackaby decries the present-day domination of economic policy and comment by "City, and City-minded, economists" (July 26). But gurus derive their power and self-importance from the gullibility of their disciples. So the rest of us are equally to blame.

Mr Blackaby attributes West Germany's notable success against inflation to its "industrial relations and worker participation" structure, not to its monetary management. But surely even the best structure in the world would have availed little without the Bundesbank's skill and eternal vigilance?

W. Grey,
12 Arden Road, N3

Freedom for conveyancers

From Mr David Ashford

Sir, The absence of a licensed conveyancers' viewpoint in your report on the Lord Chancellor's white paper (July 20) denies your readers the chance to consider our feelings about the Government's proposals. Perhaps you will permit ms partly to fill the gap.

As a pioneer of the freedom for conveyancers to practise competitively with their former solicitor masters, whose monopoly was broken by my successful High Court action in 1976, may I be allowed to contribute just two of several pertinent points?

First, I feel that with the advent of lending institutions becoming the new masters of most licensed conveyancers and solicitors alike, a fundamental re-alignment of organisation is essential if the average small private firm is not to be pushed to the wall.

In response to the impending creation of a mega-monopoly of money-lenders luring most homebuyers into their "one stop shops," the early formation of a new Association of Independent Conveyancing Advisers (AICA) should be given serious consideration.

Second, there will be many mortgagees unwilling to incur the enormous expense of setting up conveyancing departments. To them, AICA would propose the use of a single premium (say £25) title insurance policy acheme which would adequately compensate them on the rare occasion that a defective title is discovered when selling a defaulting borrower's property.

This simple device would (a) obviate the need for their involvement in conveyancing at all, and (b) release conveyancing advisers to act solely for their borrowsrs at about two-thirds of current costs.

Combating the worse effects of the "might is right" philosophy must now be the central task of all independent minded professionals. Believe me, they are much more concerned with the preservation of real freedoms of relevant consumer choice in an increasingly complex market place than many in the media may think.

David Ashford,
Chairman, National Association of Conveyancers,
44 London Road,
Kingston upon Thames, Surrey

FINANCIAL TIMES
Friday July 28 1989

Practical man in the shadow of Khomeini

Kamran Fazel and Andrew Gowers look at the tasks facing president-elect Rafsanjani

IN A televised address the other day, the man who will today be elected president of Iran was strangely subdued.

"I have a series of hopes for the future of the country which may or may not square with the potentials at hand," said Hojatoleslam Ali Akbar Hashemi Rafsanjani. "I will try to realise what is practicable."

This is modest talk from a politician in the midst of a campaign to consolidate his power. But it says a lot about the parliamentary speaker's state of mind as he prepares to shoulder direct responsibility for the morass of political, economic and social problems in post-Khomeini Iran.

Mr Rafsanjani can be in no doubt that today's election, in which the authorities have been calling for the highest possible turnout, will provide him with a strong endorsement as leader. One recent opinion poll in the Abrar newspaper predicted he would gain 88 per cent of the vote against the largely token candidacy of Mr Abbas Sheibani, a former minister who also stood in the 1981 presidential election.

The immediate task for the president-to-be is rather to dampen some of the more extravagant hopes being pinned on him. Partly because of his reputation for political shrewdness, partly because his presidency will be the first with full executive powers, ordinary Iranians are expecting a great deal. Many believe he will move swiftly to patch up relations with the West and to tackle Iran's economic crisis. The scale of Iran's problems, both at home and abroad, means they could easily be disappointed.

On the economy, Mr Rafsanjani has certainly been explicit about his intentions. His campaign speech last week focused on economic development as the main task for the next decade. "In the 10 years after the revolution we were not able to attend to the everyday lives of people because of the war," he said.

Priorities for what he calls the "decade of reconstruction" include:

- Developing Iran's natural gas resources for domestic consumption, with the aim of freeing up to 700,000 barrels a day of oil for export;
- Boosting education, especially that of women, and training technicians;
- Reviving Iranian agriculture and harnessing water resources more efficiently;
- Rapid completion of planned petrochemical plants;
- Abolition of price and exchange rate distortions, which Mr Rafsanjani identified as a major source of corruption. He has hinted at a progressive downward adjustment of the massively-overvalued rial.

In effect, the parliament speaker has already undertaken a wholesale "reinterpretation" of some of Ayatollah Khomeini's most cherished dogmas. In contrast to the late revolutionary leader's fabled asceticism, Mr Rafsanjani preaches that there is nothing in Islam against good living or the enjoyment of luxuries.

While reaffirming his commitment to a foreign policy of "neither East nor West", he adds that this "does not mean cutting ties with the East and the West, but rather maintaining healthy relations" with outside powers.

The real message has not been lost on ordinary Iranians. Asked about Mr Rafsanjani's recent rapprochement with the Soviet Union, Mr Hussain Samiei, a shopkeeper in mid-Tehran, remarked: "It was done in order to make the West more eager – you know like going after another woman to make the one you want jealous so that she'll come to you."

Mr Ali Kermani, owner of a tea house in southern Tehran, expressed a typical view when he said: "Rafsanjani will make up with the West and they'll rebuild our industry and it'll be like before."

None of this, of course, is as simple as it sounds. For a start, a rapprochement with the West will not be easy to engineer, not least because of the continuing controversy over the Salman Rushdie affair.

Second, Iran's economic crisis – featuring rampant inflation, rising unemployment, a shattered infrastructure and a moribund industrial base – is so serious that it is impossible to conceive of a "quick fix".

Tackling it will require coherent economic policies, on which the Iranian leadership has been notoriously incapable of agreeing in the last 10 years.

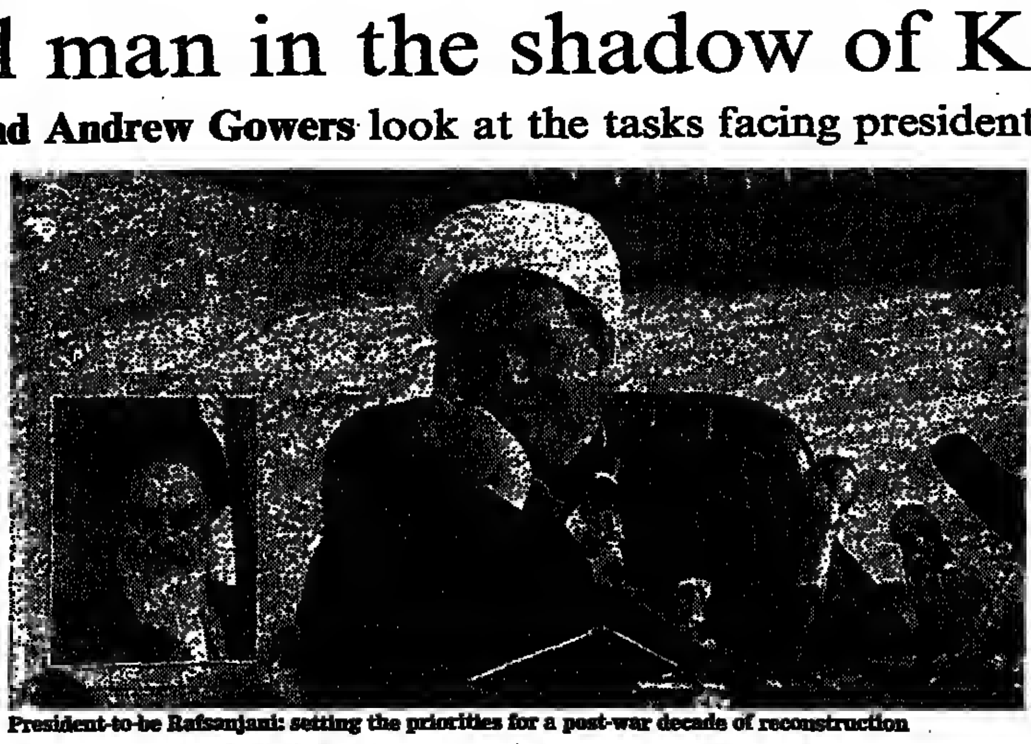
Third, and perhaps most important in the short term, there remains a potential problem of opposition to Mr Rafsanjani within the ruling apparatus. If he is to make pragmatic policies stick, the new president will not only have to confront hardliners battling to preserve the ideological purity of the revolution, such as Hojatoleslam Ali Akbar Mohtashemi, the Interior Minister. He will also be up against many people with a vested interest simply in preserving the current system and the massively-expanded number of government jobs it provides.

The civil service suffers both from rampant corruption and from a desperate lack of competence. Many officials in key positions are long on revolutionary zeal but short on necessary expertise. Mr Rafsanjani will find it difficult to create the confidence needed for a resumption of economic activity and investment without rooting out a great number of middle-level and senior officials.

There have been no clues to date as to how he intends to set about his task. To be sure, recently-drafted amendments to the constitution – which are also to be put to the vote today – give Mr Rafsanjani theoretically awesome powers. But recent press reports suggest that several of the hardliners opposed to an opening to the West will remain in the cabinet under him, presumably arguing vigorously against his policies.

Ironically, the new president's main political headache may well turn out to be the Majlis (parliament) – up to now his principal power base. A majority of members of the present Majlis are fundamentalists. They may yet form a powerful opposition alliance, together with Mr Mohtashemi, Ahmad Khomeini (the late Ayatollah's son, who is tipped to be the next Majlis speaker) and Hojatoleslam Ansari, a close Khomeini associate.

Despite the united front being projected by the authorities, Iranian observers reckon the president and parliament will soon be trying out their respective strengths – perhaps on the controversial question of social liberalisation, which is vital if the country is to attract back exiles to assist in reconstruction.



President-to-be Rafsanjani: setting the priorities for a post-war decade of reconstruction

THE LEX COLUMN

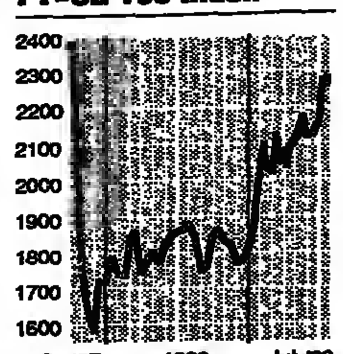
ICI balances on the cycle

ICI's half year figures left the stock market unmoved yesterday, for perfectly good reasons. Whatever the company may say about its changed nature in the 1980s, its immediate prospects are still chiefly determined by the cycle in industrial chemicals. The market has no clear idea of what the cycle is doing just now, and neither has ICI.

The paradox is that prices for most base chemicals are weakening, but underlying demand is not. The industry's customers have a clear memory of how good a deal they got on price in the early 1980s, and how much the tables have turned since. Sensing the long-awaited downturn, they are now staging a buyers' strike, just as everyone goes off for the summer break. Come September, they may find they have misjudged their own customers' demand, and will restock accordingly. If not, the base chemical producers are in for a thin time.

But so far, there is no reason to doubt ICI's assertion that the slowdown is manageable. Net of exceptionals, group operating profits in the second quarter were unchanged from the first, and volume was still 3 per cent ahead. The group will also claim that it is much better placed for a downturn than in the past, and that is plainly true. But the upswing last year proved so extraordinarily profitable as to prove a potential embarrassment. The shares are still at an historically wide discount to the market, and it is hard to see that changing over the rest of the summer. The market is not just unsure of what kind of downturn is coming: it does not know what it is discounting either.

FT-SE 100 Index



Royal/Fondiaria

It may not be high drama, but Royal Insurance's purchase of Lloyd Italico from Fondiaria makes plain the thinking behind cross-border deals by Europe's large insurers. We are not seeing big takeovers, least of all mega-bids for UK composites: rather, a flow of smaller deals, of £100m to £200m, as companies fill gaps in their portfolios, with an emphasis on the faster-growing Mediterranean.

Royal's move merits one-and-a-half cheers, not a rousing three. Any tourist in Turin or Taormina can identify the deep penetration of Italy by Swiss and German insurers. There is a clear danger that the UK composites are lagging in the race for a share of this under-developed market; Italico is a step in the right direction, like Commercial Union's joint venture with Credito Italiano. Though Royal is paying £99m for net assets of £40m, the price is no worse than those paid by French and Swiss insurers for Italian companies in the last year: and Italian revenue law apparently permits Royal to offset the goodwill against tax.

The quibbles are real, none the less. Fifty-five per cent of Italico's business is third-party motor, where Italy's officially approved rate increases are well below claims inflation. And Italico has no life business of its own, though life assurance is Italy's best area of opportunity. One feels, too, that this deal is not much for Royal to show in Europe after 18 months of talks with Fondiaria and last year's vain flirtation with Groupe Victoire.

Markets

The happy way in which the US markets responded to some fairly predictable GNP numbers yesterday was good bull market stuff. Even after a 7 per cent rise so far this month, Wall Street still managed to advance further, while the bond market is at least two steps ahead of the Fed in terms of easing. It is all getting a bit over-optimistic, and even though yesterday's GNP figures were encouraging both in dimension and composition, they were not exactly news. The picture is now clear: economic growth is slowing, but there is no sign whatsoever of a recession. Meanwhile, the rise in stocks has been modest, the consumer is being brought to heel, and business investment and exports are taking up the slack.

The Fed has presumably taken all that into account in its latest easing, so it will surely take more evidence to make it move more. However, the market is making much of the fact that it has eased twice on the basis of last month's FOMC meeting, and thinks that means the same will happen for several months to come. At least that is what one year money at 7.75 per cent is bravely saying.

Water mergers

The UK water industry is in such a state of financial and operational turmoil that the last thing the Government wants is to have to pass judgment on a major merger among three of the more enterprising statutory water companies. After all, it is only just over six months since the authorities clamped down on the industry's merger mania by introducing a draconian amendment to the water bill allowing any future takeover of companies above a certain size to be referred to the Monopolies and Mergers Commission, on the grounds that a successful bid could reduce the number of independent companies.

The problem for the Government is that the merger of three medium-sized companies in the London area makes a lot of sense. The companies have been co-operating together for a long time and the bigger group should be better placed to secure future water supplies. The political downside is that the French water giants, whose predatory behaviour was one of the main reasons for the takeover curbs, are heavily involved; and the neighbouring Thames Water could well use its undoubted lobbying skills to hamper the creation of a much more substantial competitor on its doorstep. Once again, the country's most antiquated stock market sector looks like providing the Government with a headache it could do without.

Squibb

It seems hard luck on SmithKline Beecham that it only had 24 hours after its formal merger to enjoy the title of the world's second biggest drug company. But it could perhaps regard the merger of Squibb and Bristol-Myers as a compliment. The consolidation of the drug industry is on with a vengeance, and others are latching on to SmithKline Beecham's realisation that merger is the way to avoid catastrophic earnings dilution. It seems a dangerous admission of weakness by both parties; but the defence is that if attacked, either company could doubtless find a white knight in an industry desperate for acquisition.

Jaruzelski expected to resign as Communist Party leader

By Christopher Bobinski in Warsaw

GENERAL Wojciech Jaruzelski, Poland's newly elected president, is expected to offer his resignation as Communist Party leader at a two-day meeting of the Central Committee which starts today.

The meeting is the first real chance the committee will have had since last month's election catastrophe to apportion blame and members of the Politburo, such as Mr Stanislaw Ciosek, seen as responsible for the decisions which led up to the national ballot, will be hard pressed to defend their posts.

Gen Jaruzelski is concerned to shed his party role and project a new non-sectarian image as President, taking his first step on Tuesday when he is to attend a Catholic church service at the unveiling of a monument to the 1944 Warsaw Uprising.

The Central Committee meeting also has to decide on a candidate for Prime Minister and come up with a leader who will steer the party to its next Congress. The reformist wing hopes to implement a modernisation at the Congress which would make the party attractive enough to stand a chance of winning elections.

There is, however, a tangle of candidates for the post of First Secretary and any deadlock could mean that General Jaruzelski will have to stay as First Secretary until the issue is sorted out. Alternatively, a collective party leadership could be appointed, as is the case in Hungary.

Today's meeting will also be attended by the Communist Party group in parliament, many of whom stood in the elections and won against the wishes and without the support of the party apparatus. Clashes are expected between them and the Central Committee which is set on accusing the deputies of failing to stand up to Solidarity in parliament.

The plenum comes in the wake of yesterday's government meeting chaired by Mr Mieczyslaw Rakowski, the outgoing premier and the candidate for the top party post, which postponed until tomorrow any decision on whether to press ahead with big food price rises, which would be introduced next week.

The delay was due to the need to wait for Solidarity to decide its position on the matter. The official trade unions, are in favour of higher prices but, like Solidarity, have called full wage compensation.

The Solidarity leadership is to meet in Gdansk on Saturday and will in all probability sidestep the issue hoping that indexation automatically linking wages to prices due to come in soon will halt falls in living standards. At its meeting it will also be asked by Lech Walesa as well as representative's of the movements parliamentary group to reverse last week's stance on the indexation legislation. Originally the Solidarity trade union leadership opted to demand wage increases for all workers including those who had already won rises over the past three months and were thus ahead of inflation.

LIKUD-LABOUR COALITION

Rabin backs first phase of peace plan

By Hugh Carnegy in Jerusalem

MR YITZHAK Rabin, Israel's Defence Minister, says he believes the present government could implement the first phase of its peace plan for the occupied territories - establishing interim Palestinian self-rule - without provoking a fatal split within the Likud-Labour coalition.

Less than three weeks ago, the Labour party, to which Mr Rabin belongs, threatened to bring down the coalition because Mr Yitzhak Shamir, the Prime Minister, had accepted hardline conditions proposed by rightwingers in his Likud party to strangle the initiative.

Labour decided last Sunday to stay in government after reassurances from Mr Shamir that the peace proposals stood unaltered. Since then efforts to get the initiative off the ground have resumed with unexpected intensity, marked by the disclosure of a series of meetings between the Prime Minister and prominent pro-Palestine Liberation Organisation figures from the West Bank and Gaza Strip.

Asked whether, despite the setbacks of the past month, the coalition could carry through its own initiative if the Palestinians agreed to get involved, Mr Rabin replied: "Yes, for the first phase."

Speaking to the Financial Times, he said that both Labour and Likud were committed by the Camp David accords with Egypt to a temporary period of Palestinian self-rule of the type proposed in Israel's latest initiative.

Under the plan, this stage would be followed by negotiations on a final settlement at which all parties could make whatever demands they wanted. He said Labour and Likud would then have to split because Likud was committed to holding on to the West Bank and Gaza, while Labour was prepared to exchange some, but not all, of these lands for peace.

Mr Rabin said of Mr Shamir's commitment to the process: "I believe that the prime minister is bound, as is every member of the cabinet, by what is included in our peace initiative and I believe even more so that the fact thet he started intensified meetings with Palestinians in the territories of all kinds after (the Likud conditions) shows that he means business."

Mr Shamir has come under bitter criticism from his opponents within Likud for meeting PLO supporters. But he denied the contacts amounted to indirect talks with the PLO. They were "exploratory discussions" that would continue, he told Israel television.

Like the Prime Minister, Mr Rabin continued to rule out negotiations with the PLO.

He said Israel would not accept a PLO suggestion thet a Palestinian team to negotiate terms for elections leading to interim self-rule should include at least two members from outside the occupied territories.

But the Defence Minister said he assumed "certain modifications," which he declined to specify, would be made to the peace plan if the Palestinians agreed to get involved. He was also equivocal on negotiating with local Palestinians with PLO links.

"The initiative is directed to the Palestinians in the territories. We don't put any limitations on their movements. I believe that they have to consult elements in the Arab countries, other people in the international community and there might be, here and there, others too. As long as they are the address."

Mr Rabin has so far persuaded Labour, many of whose members fear the party is being asphyxiated by Likud in a futile bid for peace, that the fragile peace plan is worth sticking with.

Blue Arrow claims new victim

By David Waller

THE Blue Arrow affair yesterday claimed another casualty. Mr Christopher Stainforth resigned his post as a corporate finance director at UBS Phillips & Drew, the stockbroking firm which came in for severe criticism from the British government report into the Blue Arrow affair.

Mr Stainforth's colleague, 28-year-old Mr Alexander Fraser, who was an assistant corporate director the time of the employment agency's abortive rights issue in 1987 – and who, with Mr Stainforth and two other P&D executives, was criticised in the report – has been suspended with immediate effect.

Mr Rudolf Mueller, chairman and chief executive of the London-based subsidiary of the Union Bank of Switzerland said it was not appropriate to comment on the detailed findings of the Department of Trade and Industry inspectors until The Securities Association had completed its own inquiry into the affair.

Mr Stainforth's conduct is described in the report as falling well below the standards expected of a responsible director of P&D and he is criticised for placing a "seriously misleading" advertisement about the take-up of shares in the rights issue.

In P&D's first public response to the affair since the DTI report was published last week, Mr Mueller said that it was unnecessary to change the structure or the strategy of the firm in response to the inspectors' findings.

Explaining the decision to do no more than suspend Mr Fraser – whose conduct in the summer of 1987 prior to the rights issue is described as falling below the standards expected of a responsible executive of P&D – Mr Mueller said that Mr Fraser was only a "B player" in the affair.

The other two P&D employees censured in the report left the firm some time ago. Mr Martin Gibbs retired at the normal age while Mr Alastair Alcock has returned to the Bar.

WORLD WEATHER

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Thatcher launches counter-offensive

Continued from Page 1

her reservations about closer monetary and economic ties with the European Community, the issue believed to have led to Mrs Thatcher's decision to move Sir Geoffrey.

The Prime Minister's earlier remarks in cabinet were being taken to mean that she would like Mr Nigel Lawson, the Chancellor, to remain in his post as part of the team to fight the next election contest.

The Prime Minister emphasised that she wanted a period of stability in which the government could concentrate on promoting its policies and on launching a counter-offensive against the opposition.

A series of ministerial initiatives are planned throughout the summer.

At the Downing Street meeting, the Prime Minister outlined the Government's programme for the next parliamentary year and looked even further ahead to the run-up to the next general election.

Responding to remarks by President François Mitterrand, who earlier this week warned that progress on economic and monetary union could be made without France, Mrs Thatcher told MPs that Britain was ahead of France in respect of the free movement of capital, the abolition of exchange controls and the reduction of industrial subsidies.

She said that at the recent Madrid summit it was France which had been isolated.

"Nothing will persuade me to surrender the sovereignty of this House to a European parliament," she added

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SECTION III

FINANCIAL TIMES SURVEY

Colombia contradicts the axiom that economic health is undermined by social conflict and a climate of insecurity. The economy is thriving and foreign companies are content with their profits despite the risks, writes **Robert Graham**, Latin America editor

Turmoil and achievement

IN A RECENT raid against a drug trafficker's ranch, Colombian government troops found a herd of cattle in the way. The cattle refused to move and were caught in the cross-fire. Despite the sustained din of battle, only one cow stampeded.

The story is an apt parable of Colombia today. It has become the most violent society in Latin America, sprouting a bewildering number of conflicts, the protagonists of which behave with the cynical callousness of Chicago gangsters. At the same time, the majority of Colombians are caught in the cross-fire yet manage to pursue orderly lives devout in their religion, conservative in their tastes, loyal to family and firm believers in Colombia's long-standing tradition of democracy.

It is as if two totally different societies share the same state. A vibrant democracy exists alongside a total disrespect for the rule of law; competent civil servants administer an efficient bureaucracy yet large slices of the country evade all state controls.

Colombia overturns the received wisdom that social conflict and a climate of insecurity undermine economic activity. The economy has managed to thrive, with business confidence generaly bullish and foreign companies content with their profits despite the risks. Colombia has the unique status of being the only Latin American country to have sustained growth throughout the debt crisis and avoid the need to re-schedule its $16.4bn debt.

Over the past two decades, annual growth rates have averaged almost five per cent. In less than 10 years the economy has diversified enough to escape its traditional dependence on coffee, although it remains the second largest coffee exporter after Brazil. Colombia is now the world's second biggest cut-flower exporter, the third largest coal exporter, as well as being the region's second gold producer and fourth oil exporter.

These achievements suggest the authority of the state extends only so far as different interest groups permit and that everyone finds a common denominator in the value of economic growth and increased prosperity. At least in the economic sphere, successive governments have been allowed to get on with the joh and they have pursued cautious, well-managed policies. The present Liberal administration of President Virgilio Barco, approaching its fourth and final year, has proved no exception to the rule.

Ironically, this combination of competent administration and prosperity has probably helped anaesthetise the country against the degree to which law and order has broken down. The country's capacity to absorb violence has also been helped by its sheer size, its mountains and the distribution of its nearly 30m population.

The Andes in Colombia splits into three rugged north-south chains and, even today, land communications are poor. The population is well distributed between the main cities of Bogota, Cali and Medellin, in the centre, and the coastal towns of Cartagena and Baranquilla. This has created strong regional identities with considerable devolution of administrative power to the provinces.

Colombia today is the battleground of as many as seven different, hut often inter-related, conflicts. The government is involved in varying degrees of combat with three leftist guerrilla groups; the government is also trying to stamp out para-military right wing death squads and is battling to curb the power of the drug barons. The right wing death squads, clandestinely backed hy elements of the security forces and in alliance with the drug harons, are, meanwhile, waging a ruthless campaign of murder and intimidation against the left in the unions and in local authorities.

The three remaining conflicts are, effectively, private wars over business rights. The main guerrilla group, FARC, has become a cocaine producer and is defending its interests against the traditional drug traffickers. Rivalry among traffickers has resulted in a bloody war of reprisal between the "Medellin Cartel", which controls 80 per cent of the drugs trade, and the smaller "Cali Cartel". Simultaneously, there is a vicious battle for control of the emerald trade, the original contrahand business from which marijuana and ther cocaine evolved.

Since none of these combatants, including the security forces, show much respect for human life, the casualties are horrendous. Furthermore, the existence of so many different conflicts makes it easy to hide the authorship of crimes, so encouraging greater abuse. In the first five months of this year, 1,232 people were killed in identifiable political assassinations, 40 per cent up on the same period in 1988, according to statistics compiled by the President's office. The Catholic research institute, CINEP, using a hroader definition of political killing, estimates 2,342 died in the first four months of the year.

The rise in casualties partly reflects increased activity hy the security forces after pnblic concern over their lack of success on all froots. The drugs husiness has heen hit especially hard this year. Some 21 tonnes of cocaine have been seized in six months, three tonnes more than the whole of 1988. But the power of the drug barons to coerce society, corrupt justice and make money, has heen little affected. Though the leaders have arrest warrants on their heads, they remain at large and "narco-dollars" are so pervasive as to be indistinguishable from clean money.

Ministers argue with good cause that the drugs business will only decline when demand is curbed in the US and Europe. One of the ugliest aspects of the drugs traffickers is their backing of para-military right wing death squads. After mounting evidence that these gronps have hecome responsible for the bulk of recent killings, the security forces have been finally persuaded to go on the offensive against them.

According to the President's office, right wing para-military groups have been responsible for between 70 per cent and 80 per cent of political assassinations in the past 18 months. In good measure, this reflects their private war against members of the leftist party, Patriotic Union (UP), who did well in the country's first direct municipal elections last year. The UP has grown out of the Communist-inspired guerrilla movement, FARC, as a result of peace initiatives set in motion five years ago. The party has firmly established itself as a third force in the democratic arena alongside the two traditional parties – the Conservatives and Liberals.

President Barco hopes the UP example can be followed by the 12,000 guerrillas still under arms. Last Septemher he made a peace offer proposing amnesty and political integration, provided the guerrillas laid down their arms. In Jannary the offer was taken up definitively by the small group, M-19, and partially hy the FARC and the Popular Liberation Army (EPL). A unilateral cease-fire hy these groups is holding and a commission of notables has begun soundings with the guerrillas to establish if there is common ground with the government.

'Narco-dollars' are indistinguishable from clean money

The latter can do little more than wait for the guerrillas to respond to the offer of amnesty. The erosion of puhlic support for the guerrilla groupings is near complete. The guerrillas themselves have lost their ideological commitment and have become more like bandits. The FARC devotes most of its energies to the drugs husiness.

The most militarily-active group is the 1,300-strong National Liheration Army (ELN), led by a former Spanish priest espousing an ill-defined version of popular power and radical nationalism. The ELN has taken advantage of poorly-defended economic targets to wreak havoc through sabotage. In the past 18 months, the ELN has caused $380m-worth of damage to the oil industry, mainly as a result of frequent damage to the 780-kilometre pipeline carrying crude from the oilfields round Arauca to the coast. Although all oil contracts are still being honoured, such sabotage is expected to cause a 20 per cent cut in exports this year. The group has also taken over up to 50 gold mines and damaged valuahle hanana export plantations.

The increased cost of coping with this diffuse array of security prohlems has distorted government spending and is a prime cause for the 1989 hudget deficit which is projected at 2.3 per cent of GDP. Controls on public spending have had to be tightened and growth targets have been lowered from 4.6 to 4 per cent. This deceleration does not yet spell a recessionary trend – even accounting for the consequences of this month's collapse of the International Coffee Agreement. The sharp fall in coffee prices was not unexpected, and the Colomhian coffee industry is well equipped, in the short term, to sell more in volume to compensate. Nevertheless, the longer term effects of an unstahle coffee market could be unsettling.

Uncertainties surrounding coffee could weaken the government's resolve to introduce sweeping trade liberalisation measures and begin de-regulation of the financial system. Both tbe ruling Liberals and the opposition Conservatives recognise that Colomhia's future economic development will benefit from a freer market and more emphasis on export-led growth. However, the country is entering a pre-election year and party politicking is going to dominate the Congress. Business, as a whole, is afraid of liberalisation and is liable to do its best to twist Congress's arm in this respect.

The last say on economic liberalisation – as, indeed, on any other issue – remains with the coterie of the country's former presidents. With the president constitutionally barred from consecutive terms of office, Colombia has evolved a political system which permits ex-presidents to wield enormous influence behind the scenes. Unfortunately, this power is exercised without real accountability and, in the case of President Barco, has undermined his authority.

Recycling rubbish in Bogota: the informal economy has an important role to play

COLOMBIA

CONTENTS

Photography: The Timothy Ross Picture Group; Sarita Kendall
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The government's ability to continue to keep a grip on the economy will be put to the test in the coming year

Braced for the future by past sound management

WHERE ELSE in Latin America could one find officials shaking their heads over the prospect of annual growth being cut from 4.6 per cent to 4 per cent? Most would consider themselves fortunate these days even to contemplate such a target.

Yet it is a measure of Colombia's remarkable economic stability and consistent growth throughout the debt crisis that small changes in projections should provoke anxious reaction.

So far, the deceleration in the economy has been selective. Nothing suggests recession and even 3.5 per cent growth – a pessimistic estimate – is respectable when measured against an annual birthrate of 1.7 per cent. Nevertheless, the collapse of the International Coffee Agreement and serious sabotage of the oil industry by guerrillas, when combined with the charged political atmosphere of a pre-electoral year, will strain business confidence and severely test the Barco administration's ability to manage the economy.

The slowdown has been most evident in construction where the number of private building permits issued was 14 per cent down in the first quarter of 1989 against the same period the previous year. Commerce has also been affected with car sales down 14 per cent and domestic appliance sales down 9 per cent. Industry, meanwhile, has begun to accumulate stocks and unemployment is marginally up at 10.9 per cent of the active population.

The government is squeezing demand to rein in inflationary pressures produced by an unexpectedly sharp rise in public spending. The escalating level of violence caused the government last year to increase current spending 60 per cent – more than double the rate of inflation – and this year the increase is projected at 43 per cent against 24 per cent inflation.

Additional pressures on the state purse have come from the government's poverty eradication programme, and excessive cost overruns on such projects as the incomplete Medellin metro will need an extra $230m through to 1992. Unseen costs have also emerged in the first year's operation of the transfer of much budget management from central government to regional and municipal authorities. The public sector deficit now stands at 2.3 per cent of GDP.

These negative factors are still more than balanced. Agricultural production and agro-business, which account for 21 per cent of GDP, are expanding on strong domestic demand and growing foreign sales. In less than five years banana and cut flower exports have increased from $190m to over $450m. The mining sector is performing exceptionally well despite the large oil industry

President Virgilio Barco: having to cope with sabotage of the oil industry.
Right: picking coffee. The full impact of the pact's collapse has yet to be felt

losses sustained from guerrilla sabotage. Last year guerrillas caused $250m-worth of damage and they have done a further $130m in the first half of 1989.

For the year as a whole, the government is braced for a 20 per cent shortfall in oil earnings but, even so, the sale of petroleum and petroleum products will earn $1bn. Coal exports will be worth another $430m; while gold sales will be in the region of $400m.

These exports reinforce Colombia's external payment position, providing a projected 1989 trade surplus of $550m. The current account deficit should be no more than $800m, while net reserves of $3.3bn should

A switch to export-led growth will require major liberalisation

cover almost nine months of imports. Service on $16.4bn of public and private debt represents 7 per cent of GNP, but this should remain manageable without resort either to restructuring or the imposition of recessionary economic measures.

Colombia needs continued inflows of external funds to the tune of $2.6bn for at least the next two years. The recently-concluded $1.64bn "challenger" loan with the commercial banks should tide Colombia over a difficult 1989/90 amortisation period and the Colombians are confident that the bulk of foreseeable financial needs are accounted for.

The future of the international coffee trade, after the sharp price drops in the wake of this month's collapse of the International Coffee Agreement, is an unsettling feature. At times of high prices like 1986, coffee sales were worth $3bn – over 55 per cent of total export earnings.

This year's sales were projected on the basis of 9m sacks being sold at around $1.35 a pound, earning $1.6bn. Colombia must now sell at least 20 per cent more in volume to earn the same. With large well-managed buffer stocks, this should be possible.

Colombia's efficiently run coffee industry can absorb, in the short term at least, the shocks of the free market. The industry has a stabilisation fund with substantial fixed assets and $350m in reserves at the central bank. However, unstable market conditions, with low prices over a prolonged period, will inevitably have negative consequences.

Coffee is responsible for generating 35 per cent of agricultural employment and covers one-fifth of cultivated land, quite apart from being responsible for 7 per cent of GDP. To maintain export earnings, high volumes of coffee beans need to be grown and this will place considerable demands on credit for imports – even if the growers' incomes are maintained at current levels.

Happily, Colombia is no longer such a coffee dependent economy. Indeed, foreign and domestic investment over the past decade in hydrocarbons and minerals as a whole has transformed Colombia into a significant minerals exporter. Half of all the recent $3bn foreign investment has been in mining, the most visible players being Exxon in coal and Royal Dutch Shell in hydrocarbons and ferronickel.

Minerals exports have increased fivefold in the past 10 years and will shortly overtake coffee sales in value. Currently coffee accounts for 32 per cent of exports and minerals 27 per cent. Projections made before the collapse of the coffee price showed coffee sales next year falling to 23 per cent ($1.5bn) and sales of coal, nickel, oil and gold rising to 41 per cent ($2.7bn) of total exports.

The relatively recent development of these resources with the aid of foreign capital underlines the traditional inward-looking nature of the Colombian economy. It also reflects the way in which Colombia was conditioned by the Andean Pact's mistrust of foreign capital and the embrace of import substitution as the motor for growth.

Belatedly Colombia has recognised the need to switch the emphasis to export-led growth, conscious of Chile's example. Chile, with under half Colombia's 30m population, exports $600 per capita. Colombia, with a potentially more diversified economy, and geographically far better placed, currently exports $180 per capita.

A genuine switch to export-led growth will require a major liberalisation of Colombia's trading policy, accompanied by removal of the considerable protection accorded powerful monopoly interest groups in almost every sector of the economy.

The government has drawn up a policy document entitled *Apertura* (opening up). If the recommendations are adopted, the government would sell off state commercial, financial and industrial activities apart from the utilities; foreign capital would be allowed to have 100 per cent ownership in most sectors; price controls would largely disappear; industry would undergo major restructuring; the credit system would be rationalised; and industry would be protected less by tariffs and more by quantitive restrictions.

Sound economic management over a long period has made the environment for such decisions much easier. Ministries are staffed by able civil servants; pricing policy has been flexible and foreign exchange rates have been managed with little official intervention. Nevertheless, the warning shots fired from entrenched interests in banking through to transportation suggest the government will move gradually.

As a start, foreign consulting firms have been drafted in to study the restructuring of five key industrial sectors – agroindustry, automobiles, leather, textiles and clothing, and steel. At present these industries suffer from low grade technology, inadequate machinery, high interest rates, low quality local inputs and expensive imports. They are also handicapped by their having grown up round the big population centres of Bogota, Cali and Medellin which are all in the middle of the country.

Colombia's rugged geography makes for high transport costs, even if the ports were efficient (which they are not). The recent growth of port cities like Barranquilla and Cartagena, stimulated by the new industries of coal, oil and petrochemicals, is perhaps the beginning of a new trend.

Economic liberalisation could help diminish the importance of Colombia's informal and underground economy. The informal economy is made up of those in unregistered small trading operations, subcontracted manufacturing and street vending. The underground economy, though often interconnected, relates to the illegal drugs trade of cocaine, heroin and marijuana as well as contraband.

Colombia has a huge contraband business ranging from illegal gold sales to Brazil, emerald smuggling, illicit cross-border trade with Venezuela and the abuse of duty free goods brought in Colombia's Caribbean island of San Andres. Unofficial estimates have put the value of the informal and underground economies at between 15 and 25 per cent of GNP. The lower figure is more likely since the only real capital involved is the estimated $800m to $900m that filters into Colombia from drug sales abroad.

Such drugs money has found its way into "legitimate" investments mostly in construction, property, pharmaceuticals, ranching and sport. The main impact, however, in economic terms, is probably on the exchange rate. Drug profits permit a large quantity of dollars to circulate, encouraging the peso to be overvalued. Few see the phenomenon of "narco-dollars" disappearing.

Robert Graham

FOREIGN DEBT

Neighbours' bad name rubs off

COLOMBIA'S relationship with its lending banks have, for some years, had a significance beyond the country's borders. It is one of only two countries in Latin America not to have rescheduled its debt during the 1980s, although it was included in the list of 15 problem debtors ontlined by the then US Treasury Secretary, Mr James Baker, in 1985. The other country not to have reschedulad is Paraguay, whose military regime was never a significant borrower, anyway.

Despite this, Colombia has often been greeted by bank creditors with almost all the suspicion usually aroused by the rescheduling countries around it.

As a debtor, Colombia has suffered from the perception of the whole continent as a poor credit risk. Its exercises in raising new loans, essentially only to refinance its scheduled repayments of principal, are always difficult if, ultimately, mostly successful.

Rescheduling of debt payments have not been necessary

Bankers have for long held out the benefits of "returning to the market" as an ultimate ambition for the region's troubled debtors. Yet, the problems in delivering Colombia its modest requests for finance have always threatened to contradict their claims.

Colombia's debt market tactics have not always been the most subtle but, partly because of its importance as a signal to others, "voluntary" deals have, in the end, been done. A $1.06bn loan which the government began to raise in 1987 took months to put together and had to be topped up by the leading banks.

The latest loan, signed last month, was months in discussion before it emerged publicly at the beginning of the year, and fell about $50m short of its $1.7bn target. The loan was meant to cover mnch of the $1.95bn of principal payments falling due in 1989-90.

The loan carries a ⅞ point margin over money market rates – higher than the ⅞ point margin being paid by most rescheduling countries. Of the $1.7bn, some $175m is in the form of marketable floating rate notes, to which only the leading banks could subscribe, at a margin of 1⅛ points.

The agreement will allow a $900m disbursement over the next month, with the remainder likely to be drawn next year. This should keep its reserves by the end of this year at roughly the level they were a year earlier – $3.85bn.

The projections used as the basis for the request from the banks suggested a current account deficit of $700m in 1989 and $600m in 1990. There were doubts about whether this could be achieved.

Colombia has suffered from tha fall in coffee prices, although the Arabica blend that constitutes most of its coffee exports is somewhat insulated from other price movements. It has shown some success in diversifying its economy away from coffee, into petroleum, coal and agricultural exports. But, despite the rise in oil prices, its main oil pipeline has been the subject of attack by guerrilla groups which has reduced the reliability of oil as an export. In fact, petroleum exports dropped last year to $985.7m from $1.35bn in 1987.

Mr Paul Luke, economist at Libra Bank, the London consortium bank which specialises in Latin America, says thet the country's tight monetary policy appears to be succeeding in keeping inflation under control, but has led to an economic slowdown, with corporate investment down about 10 per cent in the first quarter of the year. He expects gross domestic product growth of 2-3 per cent this year.

According to central bank statistics, Colombia's foreign debt climbed to $16.5bn last year – of which $13.1bn were obligations of the public sector – from $15.7bn the year before. Of the $12.9bn which is public sector medium and long-term debt, $4.8bn was owed to commercial banks.

In terms of the important ratio of foreign debt to exports, Colombia's position in the Baker 15 is bettered only by Chile.

Colombia's ratio of 256 per cent, compares with 234 per cent for Chile, 306 per cent for Brazil and 555 per cent for Argentina. That ratio is small enough to pnt it in the camp of voluntary borrowers sucb as Hungary – 220 per cent – and India – 303 per cent.

As in the case of Chile, though for somewhat different reasons, supporters of the international debt strategy have been reluctant to point to Colombia as a shining example of how a country can tackle a high foreign debt burden through sensible economic policies.

Chile has not been used as an exemplar largely because praising the economic sncesses of General Augusto Pinochet's regime can be seen as suggesting that democratic governments in Latin America are failures as economic managers. With Colombia, the problem is the unquantified benefits in terms of foreign exchange that the economy draws from the illegal traffic in cocaine.

There is reluctance to point to Colombia as a shining example

In its World Economic Outlook, pnblished in April, the International Monetary Fund pointed to Colombia as tha only one of the Baker 15 not to have suffered a reduction in investment in relation to GDP over the period 1982-88.

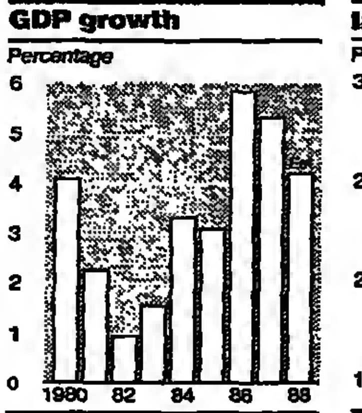
In a good summary of the country's foreign debt position, it went on: "Even though Colombia is included in the group of 15 heavily indebted countries, its debt situation is significantly less pressing than that of the other members of the group. For example, Colombia has not required a rescheduling of its debt payments. In that sense, it could be considered one of the 'non-problem' debtors."

Stephen Fidler

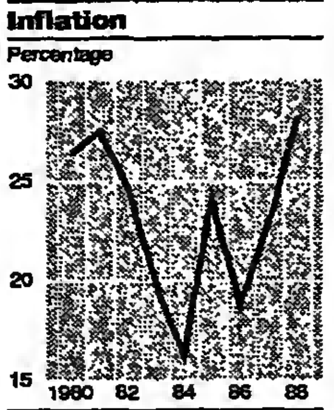
KEY FACTS

Area	1,139,000 sq km
Population	29.7m
President	Virgilio Barco
Birth rate	26 per 1,000 pop (1987); 45 per 1,000 (1965)
Urban population as % of population	69 (1987); average of middle income countries 57 (1987)
Population per doctor	1,190 (1984); 2,500 (1965)
% of age group in secondary education	56% (1986); 17% (1965)
GDP per capita	$1,240; average of 17 highly indebted countriea $1,430; Turkey $1,296 (lowest OECD) (1987)
Real GDP growth	4.2% (1988); 5.3% (1987); 1978-88 av 3.6%
Inflation	28.1% (1988); 23.3% (1987); an. av. 23.3% (1978-88)
Merchandise exports	$5,310m (1988); $5,661m (1987)
Merchandise imports	$4,400m (1988); $3,793m (1987)
Current account balance	$-401m (1988); $+336m (1987)
% of GNP 1987	Colombia +0.9; Brazil -0.4; Argentina -5.5; Mexico +2.9
Total reserves minus gold	end April 1989 $3,001m

GDP growth



Inflation



Main exports, % of total	coffee 33.7; fuel oil 19.2 (1988)
Main imports, % of total	intermediate goods 50%; capital goods 34.6% (1988)
Main export destinations	US 37.8%; EC 28.5% (1988)
Main sources of imports	US 34.9%; EC 21.1% (1988)
Total external debt	$16.7bn (1988)
% of GNP	Colombia 45.3; Brazil 33.7; Argentina 65.5; Mexico 59.6 (1987)
Debt service ratio	48.4% (1988)
Structure of long-term debt	official sources 46.1%; private 53.9% (1980-82). Off sources 53.8%; priv 46.2% (1987)
Gross domestic investment, % of GNP	19.9% (1980-87)
Gross national saving, % of GNP	16.0% (1980-87)
External financing requirement (domestic investment minus saving)	Colombia 3.9%; Argentina 4.9%; Brazil 2.7%; Mexico 1.3%
Av exchange rate 1988	$1 = 299.1 pesos; £1 = 532.9 pesos

BANKING

State maintains unwilling dominance

TALL BUILDINGS of banks dot the Bogota skyline with some of the most impressive modern architecture in Latin America. Nevertheless, this facade of solid success is deceptive.

Colombian banking has been through a severa shake-up since the state was obliged to intervene on a massive scale in 1982-83. Although most of the banks are back in profit, the state still finds itself in the uncomfortable position of being the dominant force in banking, and the process of restructuring is incomplete – since the broad aim is to re-privatise thosa banks forcibly taken over.

Support for the banking system in the form of soft loans, loss write-offs and fresh injections of capital is estimated to have cost $550m to date. Only the Chilean and Mexican banking systems have experieoced problems on a similar scale in the region, since the onset of the debt crisis.

Colombia's banking problems were triggered by the economic downturn of 1982-83, which exposed both bad and fraudulent managemeot. Since Colombian banks were often parts of groups or bolding companies, the main difficulties arose from excessive exposure to companies within the group. It also emerged that a large number of Colombian banks had entrusted substantial loan portfolios to poorly-controlled Panama-based subsidiaries.

The government eventually intervened directly in five private commercial banks – Colombie, Comercio, Estado, Teqnendama, and Trabajadores. Of these, by far the biggest problem was Colombia, both because of the bank's weight within the banking system, and the sheer size of its losses.

The accumulated costs of loan write-offs and refloating Colombia have, to date, totalled 76bn pesos – roughly half the cost of the entire bank crisis to tbe state. In other instances, although there was no direct state intervention, the central bank was obliged to provide soft loans or permit special facilities for the issue of bonds, subsequeotly convertible into shares, to permit capital replenishment.

Last year was the first when the cumulative effect of this support began to be reflected in improved balance-sheets, especially among the private banks. Since theo, the trend has contіnoed. According to figuree from the Colombian Banking Association, in the first four months of 1989 only four of tha 24 banks in Colombia were operating at a loss. This compared with seven banks operating at a loss in the same period in 1988.

This situation bas been helped by a healthy demand for credit, despite high interest rates and good margins. The authorities decided to take advantage of this improvement to impose tighter gearing ratios. Banks now can only lend 12.5 times their capital and reserves against 15 times previously. Nevertheless, several banks, including Colombia, are still under strict supervision and cannot yet issua dividends.

Quite apart from the cost, the banking crisis seriously distorted the nature of ownership. Previously, the state presence was limited to four banks operating in the commercial arena, and these were mainly sectoral – Cafetero (coffee) and Ganadero (agriculture). However, almost overnight the state came to possess aigbt banks, controlling 65 per cent of the banking system's capital. Of the remainder, foreign banks now own 10 per cent and private Colombian interests the remaining 25 per cent.

The concentration of ownership is even greater than this suggests. The Sarmiento group, together with the Santo Domingo and Antioquia groups, are believed to account for three-quarters of private Colombian ownership of the banking system.

Four of the five banks in which there was direct intervention are still being managed by a guarantee fund linked to the central bank. This was established along the lines of a similar institution in Spain, and Spanish advice was sought in its creation. The basic aim is to administer the bank through an official body until such time as they are sufficiently healthy to be sold back to the private sector. Nevertheless, Estado, the one bank to leave the fund, is in a curious limbo, since it has not found a buyer and is still state-controlled.

The Barco Govarnment is wedded to the principle of privatisation/re-privatisation of the banks. However, a number of sensitive issues have yet to be clarified. Who, for instance, will be allowed to own the banks' shares, when so much of the 17 private commercial banks' capital is already concentrated in so few Colombian hands or among foreign banks?

Existing legislation prevents foreign banks from owning more than 49 per cent. Despite the difficulties of operating in Colombia's violence-prone society, foreign banks are still interested in buying into Colombia – certainly smaller operations and the financial services' sector. The ooly recent withdrawal has been the Royal Bank of Canada.

The government recognises the need to change the law, and accepts the principla of foreign ownership up to 100 per cent. Congress is more reluctant to concede this principle, even though, in practice, the rules have already been breached. Two of the seven foreign banks have 100 per ceot ownership – Bank of America and BCCI. This is because the authorities permitted them to pump in capital to ailing Colombian institutions in which they were already ehareholders. Of the others, Real is owned 85 per cent by the Brazilian Banco Real. The rest are 49 per cent-owned, including Lloyds' stake in Anglo-Colombiano and Citibank's share in Internacional. (Extebandes, the commercial bank of tha Andean Pact countries with Spain's Banco Exterior, is in a special category.)

These anomalies of ownership bave to be tidied up, but the time-scale is still unclear.

The attitude of Congress is likely to play an important part on the issue of privatisation. A major hurdle is tha view among several depnties that privatisation can only go ahead providing the banks – or the purchasers – repaid the monies spent by the state on refloating them.

The government, meanwhile, is studying various measures to lessen the highly *dirigiste* role of the ceotral bank. At preseot, a high proportion of commercial bank daposits have either to be placed with the central hank or are directed into forced savings, such as bond purchases. This increases the cost of credit while, at the same time, there is no adequste means of enauring accountability in how the officially-controlled credit is used.

Robert Graham

Robert Graham on a long-standing border dispute with Venezuela

Pushed towards co-operation

BORDERS ARE a sensitive topic throughout Latin America, and few countries can claim to have the limits of their territory fully agreed with their neighbours. Colombia is no exception. A large maritime zone in the Gulf of Venezuela is still a subject of dispute with Venezuela.

The two countries came close to armed conflict in August 1987 over an incident in disputed waters of the Gulf. This incident, however, had a salutary effect and, since then, both sides have sought to establish a *modus vivendi.*

The two countries have also been pushed towards mutual co-operation by growing security problems on both sides of the land border, as well as problems arising from their closely linked frontier economies.

It says much of the nationalistic sensitivities of both sides that the Gulf of Venezuela dispute dates back more than 160 years, to when Colombia and Venezuela became independent. Originally the dispute was over whether Venezuela would be able to claim the entire Gulf as an inland sea. In this respect, Venezuela's land border appears to go far enough up the Guajira Peninsula for a line to be drawn from this western point across the water to the Paraguana Peninsula, thus covering the bulk of the lower portion of the Gulf.

But the argument about strategic control over entry and exit to Lake Maracaibo shifted to one of access to potential resources, once Venezuela discovered oil in the Maracaibo area. The shallow Gulf of Venezuela possesses similar geological characteristics to the Maracaibo oil fields — suggesting large oil reserves could lie there as well. Even though Colombia once went as far as granting offshore concessions, no direct exploratory work has been carried out by either country or third party.

In 1987 Colombia initiated a series of probing missions by both fishing vessels and warships. Venezuela came close to calling an air strike

Over the years, several opportunities to settle the dispute have been missed. As early as 1833, both sides drew up a treaty which recognised the Gulf as a Venezuelan inland sea. This treaty drew the Venezuelan land frontier on the western shores of the Gulf from Cape Chichivacoa, but the document was never ratified by the country for whom it was most advantageous: Venezuela. The Venezuelans were to pay dearly for this slip, and the Venezuelan failure to pursue their claim properly has frequently contrasted with Colombia's more able diplomacy.

When in 1881 the Spanish crown was asked to arbitrate on the two countries' frontier, Colombia was awarded a large slice of territory down the Guajira Peninsula to Castilletes. Colombia was also recognised as a riparian state on the shores of the Gulf. This eventually permitted Colombia to obtain 50 kilometres along the Gulf shore under the 1941 Colombian-Venezuelan Frontier Treaty.

Unfortunately, the 1941 Treaty did not cover demarcation of the marine and submarine areas in the Gulf, which have been the source of subsequent friction. Colombia forced the pace on the issue, when in the early 1960s oil concessions were awarded to several oil companies in the Gulf.

Talks headed off a confrontation; but no real progress was made, other than for Venezuela to make it plain that it would accept nothing less than the lower half of the Gulf as purely Venezuelan. In effect, the Venezuelans were trying to claw back the initiative in what increasingly came to be seen as a 1941 treaty prejudicial to their interests.

By 1980 a fresh series of negotiations produced a working agreement. This time, however, the Venezuelan military stepped in and rejected the agreement because not enough of the Gulf was recognised as Venezuelan. A combination of Venezuela's inability to produce a formula that satisfied nationalist sentiment and Colombian frustration over lack of agreement led to increased tension.

In 1987 Colombia initiated a series of probing missions by both fishing vessels and warships. It was on one of these occasions in August that Venezuela came close to calling in an air strike against a Colombian warship, amidst a nationwide military alert.

Over the following nine months both sides nursed bruised egos, while their respective military establishments shopped around with big lists of new weaponry. Happily, this military build-up has not taken place, despite both Colombia and Venezuela upgrading some of their equipment. The need to co-operate has proved more imperative.

The discovery and development in the early 1980s of oil fields on the Colombian side of the tropical plains around Arauca spawned a serious security problem. These oil fields have become of vital strategic importance to Colombia.

At the same time, however, feeding off the presence of foreign oil companies, the National Liberation Army (ELN), a leftist guerrilla movement, has grown strong. Their kidnappings, sabotage of installations and blackmail of local inhabitants have proved highly disruptive. Furthermore, until the Venezuelan security forces began to react in 1988, the guerrillas took advantage of a safe haven across the border.

Another aspect to security along the border has been posed by the overspill of the Colombian drugs business. Police pressure on operations inside Colombia has resulted in the drug barons shifting both some of their manufacture and shipment operations into Venezuela.

Tackling these security problems was long complicated by a lack of effective dialogue, as well as the traditional close integration of the populations on either side of the frontier. In the 1960s and 1970s large numbers of Colombians were attracted to work in Venezuela's oil boom economy. Although the Venezuelan recession of the past three years and Colombia's sustained prosperity during this time has reversed the flow, at least 600,000 Colombians are still living in Venezuela, mostly doing menial jobs.

In addition, a vast and fluid trade in contraband goods has thrived on the two governments pursuing wholly unmatched economic policies. The traditional Venezuelan policy of heavy subsidies for foodstuffs and petroleum products has ensured that these have found their way easily across the border; while, on the Colombian side, the Venezuelans have been buying anything from industrial goods and domestic appliances to emeralds. On occasions, this contraband trade has totalled as much as $100m a month

It is against this background that a new sense of pragmatism has permeated both sides. The catalyst has been the presence since February of Mr Carlos Andres Perez in the Venezuelan presidency. On March 28, he met at the border with President Virgilio Barco.

A fluid trade in contraband goods has thrived on unmatched economic policies

This historic meeting led to the creation of a five-man international conciliation commission, headed by Mr Adolfo Suarez, the former Spanish Prime Minister, and including two former Latin American presidents. Three bilateral commissions were also established to study specific issues. Since March, there have been five meetings, and both sides have reported solid progress with a clear will to achieve positive results.

If this continues, the foundations for genuinely close political and economic integration between two historic rivals will almost certainly be laid. Already co-operation at the security level has improved, and the two countries are pursuing economic policies that are far more closely aligned.

There are no new words of condemnation left — but the killings continue, writes Sarita Kendall

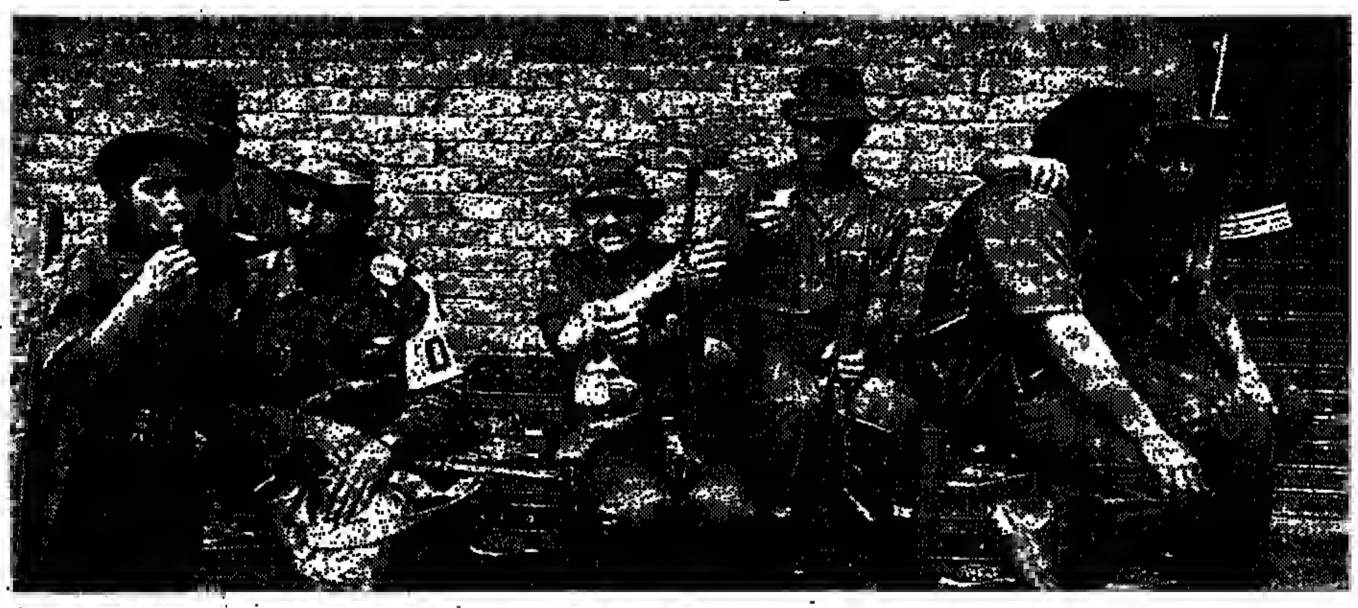
Violence touches every corner of society

"ONCE AGAIN, we must close ranks for the right to live, for democracy..." said President Barco at the funeral of the governor of Antioquia who had been killed by a car bomb. "Enough of crimes, of blood, of violence," said the minister of the interior. People fumble for words when condemning violence in Colombia — every cliché has already been used, yet there is another assassination, another massacre.

There is also a whole vocabulary to describe different kinds of armed groups, an endless supply of deathly anecdotes, and plenty of black humour. A quarterly magazine put out with one of the main Bogota newspapers does a regular statistical round-up, listing political murders, drug-related killings, military losses, tortures and disappearances. Occasionally somebody comments on the unhealthiness of getting used to ever-increasing violence, on the social anaesthesia induced by living with it.

"I was sitting on this bus for four hours, and this man beside me never stopped talking about the paramilitary groups. He gave names and details and places. I didn't want to listen, and kept saying how hot it was, and silly things like that." The social worker laughed at herself, adding, "The problem is, you don't know who anyone is any more."

The confusion about who is who and, for example, why the Antioquia state governor was murdered, fuels a sense of impotence which the government has been unable to dispel. The sheer range of guerrilla fronts, paramilitary gangs, drug trafficking organisations, self-defence groups and death squads is disconcerting enough, but discovering how they are intermeshed is bewildering.


M-19 guerrillas relax as talks with the government take place

The biggest guerrilla movement is the pro-Soviet Revolutionary Armed Forces of Colombia (FARC), with some 45 fronts. They grew out of a self-defence organisation formed during the civil war in the 1950s, known simply as the Violence. Based in the countryside and identified with the peasantry, FARC controls significant areas of the Llanos and the Magdalena Valley, forcing land owners to pay protection money. Although most fronts signed a peace agreement during Belisario Betancur's government, they were accused of using the truce to expand and arm up.

'The problem is, you don't know who anyone is any more'

In its early days, the Popular Liberation Army (EPL) was a rigidly Maoist organisation. One splinter group specialised in killing policemen, and did not survive long. Strong in Antioquia and the north west, the EPL has more recently become involved in the labour conflicts of the banana growing region of Uraba.

The National Liberation Army has moved from a Castroite rebel army with student appeal to oil sabotage. It specialises in dynamiting oil pipelines and gold dredges, and has threatened to extend its anti-natural resource campaign to coal.

M-19 — the 19 April Movement — has always had a talent for the theatrical, and this, combined with the fact that it was more populist than Communist, earned surprising sympathy until the catastrophic takeover of the Palace of Justice in 1985, which left dead over 100 people, including 11 supreme court judges.

Whittled away to a fraction of its former size, M19's leadership is discussing peace with the government and the main force is camped in neutral territory in Cauca. The Quintin Lame rebels — named after an Indian resistance hero — were fostered by M-19, and operate in the indigenous areas of Cauca.

Altogether, official estimates put the number of guerrilla combatants at about 11,000. But there are also many part-time fighters and sympathisers. Significant areas of Colombia — especially in the Llanos, the north west and the north east, as well as smaller pockets in the Magdalena and other areas — are dominated by the guerrillas.

After the collapse of the Betancur administration's peace treaties, the incoming Liberal government moved very cautiously. President Barco stressed development plans for violence-ridden zones, and appointed a presidential adviser on peace. All along the government has moved slowly and taken no risks, saying the guerrillas must show, with actions rather than words, that they are committed to a lasting ceasefire.

"It's impossible to talk of development and democracy if the country is in the grip of subversion," said Senator Alvaro Leyva of the Conservative party. "The government hasn't defined its position. There has been no initiative." Mr Leyva took on the job of roving peace ambassador after negotiating the release by M-19 of the former Conservative presidential candidate, Alvaro Gomez.

Many arms-for-cocaine exchanges have gone through

Since then he has been in contact with all the groups, and they have evidently found his approach — unfettered by government restrictions — more flexible. But, with the experience of so many broken truces, many are sceptical of the guerrillas' real interest in peace.

Mr Leyva gives more convincing reasons than the familiar guerrilla rhetoric: after decades of fighting they have not won a military victory, and still have a political cause; their outlook is changing, adapting to influences in and outside Colombia and, in most cases, is no longer so rigidly ideological; leaders who have spent so many years in the hills need a valid exit to justify their struggle.

The government watched Mr Leyva's peace overtures and waited for the go-ahead from an elder statesmen's commission before renewing the peace dialogue with the guerrilla co-ordinating group. While face to face talks with the ELN seem most unlikely, the recent FARC ceasefire has been partly successful. A law to pardon rebels and pave the way for return to democratic politics is being considered. Both the president's peace adviser and Mr Leyva currently reject talks with right wing groups.

After overlooking the proliferation of armed self-defence groups, the government was forced to stem their power. The killing of a judicial team sent to investigate a massacre by the paramilitary was one sign that the group was becoming uncontrollable. Another was the Bogota Airport shooting in which Jose Antequera, a left wing Patriotic Union leader, died and a Liberal senator in line for the party's presidential candidacy was badly injured.

In April the government stopped self-defence groups from arming up, began training an elite police force, and retired an army colonel linked to the Magdalena paramilitary. The self-defence groups centred on Puerto Boyaca have bragged about their strength and their success in driving out "Communists" and imposing peace without the need for dialogue.

The overlap between self-defence groups and drug trafficking is clear in some rural areas, less so in others; gangs of gunmen operating in cities are mainly employed by the cocaine cartels.

All the actors in the violence have been increasing their fire power. Although one big arms shipment — apparently meant for the guerrilla co-ordinating body — was stopped in Jamaica, many other arms-for-cocaine exchanges have, it seems, gone through. Weapons regularly used by the left and the right include up-to-date Soviet, Czech, Austrian, US and Israeli assault rifles and machine pistols.

Anti-tank missiles have also been seen in action. Recently, attacks on key figures — such as the director of the secret police — have been made with car bombs. Police and other reports confirmed that British and Israeli mercenaries have been training paramilitary forces.

In the first four months of 1989 there were more than 2,300 political, paramilitary and drug-related murders. Another 245 military and guerrillas died in skirmishes. Seventy of the victims belonged to political parties, mainly the Patriotic Union and the Liberal Party. The spread of the violence has meant that virtually no section of society is unaffected: judges, bureaucrats, students, farmers, street kids, journalists and Indians are among the dead.

The political parties and the government have floundered in their search for solutions. "The traditional parties retain their dominance. But our institutions are falling apart: the erosion of democracy goes very deep. The clash is so bad that we need a new constitution," said a leftist political leader.

The debate about constitutional reform will continue during the current congressional session. One crucial point is whether to introduce the plebiscite — it would allow greater participation, an important point for the left.

As the 1990 presidential elections approach, party splits and rivalries for candidacies are likely to distract the leadership from longer term problems. Despite the murder of so many of its members, the Patriotic Union has consolidated its place in the political arena. And there are strong young rebellions strands within the Liberals and Conservatives.

But the former presidents still rule the roost. In the end, they will probably be the ones who decide whether the political system opens up enough to defuse the violence.

How the police are dealing with cocaine

Busting the chain

THE COLOMBIAN police captured 21 tonnes of cocaine in the first half of 1989. The man behind this impressive statistic is Miguel Antonio Gomez Padilla, the two-star general who, as director of the police since January, has the anti-drug war on his shoulders.

"The idea is to attack all the activities of the drugs traffickers — to destroy airstrips so they can't be used for bringing in chemicals and transporting cocaine, to confiscate input, to destroy laboratories, to hunt down the people who do the processing," said Gen Gomez.

"We have to weaken the traffickers and discourage production. There is already evidence that we're displacing them to other countries."

In their most recent operation, anti-drug units raided 12 cocaine-producing complexes in the middle Magdalena valley. A few miles from the ranch-cum-zoo of Pablo Escobar, a leading figure in the Medellin cartel, police found a laboratory capable of making 200 to 300 kilos of cocaine a day.

Drums of chemicals were camouflaged under trees close to the farmhouse, which was used as a dormitory and cookhouse for the drug factory hands. A short trail led to a patch of jungle in the gully behind, where the cluster of main processing buildings was hidden. After a judge had inventoried the stock, the police fired tracer bullets into the chemicals, starting an enormous blaze.

Coca — the plant from which cocaine is extracted — has long been grown by Indians who chew a coca leaf mixture. In the early 1980s commercial plantations set up to supply big processing laboratories, suddenly blossomed. But, after police helicopter raids on these integrated complexes, the traffickers changed their strategy. Coca growing was left to colonists with small plots scattered through the Llanos and the south eastern jungle.

In any case, Colombian coca is not as rich in cocaine alkaloid as the Peruvian and Bolivian varieties, and most of the raw material is brought to Colombia after fairly simple processing which turns the leaves into cocaine paste.

Although some 15,000 hectares of coca are grown in the south east, Cauca and a few other areas, price drops have made it a less attractive crop. This gives substitution efforts, such as the United Nations-backed Cauca project, a much better chance. Similar schemes, introducing new crops and providing infrastructure to raise local living standards, are planned for the south east.

Apart from a small percentage of its production, Colombia is in the curious position of importing both the raw materials and most of the chemicals needed to process cocaine. Ether and acetone, which are not manufactured in the country, come mainly from the United States, Germany and Brazil. Licences are needed for legal imports, but traffickers fly large shipments directly into clandestine airstrips located near the labs. In the first six months of this year, the police captured nearly a million gallons of ether and acetone — a record for any full year.

As the police attack their processing strongholds, traffickers are forced into better disguised hideouts, such as deep forested ravines or well-built unassuming cattle farms. Instead of concentrating resources in large scale production centres, they have smaller, dispersed laboratories. Generators, storage tanks, drying ovens and glassware are often moved around from one site to another to make surprise raids more difficult.

The US is still by far the most important cocaine market, but Europe and Asia offer greater profits. Every route and every smuggling method imaginable has been used by the traffickers: Central America, the Bahamas, Cuba, Venezuela, Brazil and dozens more countries are common staging posts. Cargo-loads of a tonne or more are frequent. As a kilo of cocaine moves from Colombia to Florida, its price goes from US$1,000 to US$8,000, while in London it reaches US$40,000.

Most people estimate Colombia's income from drugs at about US$600m to US$1bn — well down on what it was when cocaine prices were high, and output lower. While part of this is absorbed in running the business, cocaine money has also burrowed into banking, industry, cattle ranching, urban real estate, car imports, the media, football, hotels and entertainment. Marijuana, a less violent trade, is increasing again as overproduction affects cocaine earnings; poppy plantations for supplying small heroin labs have also been found in the southern Andes.

Catching the cocaine chiefs is far more difficult than destroying their labs. Eighteen people were taken to the US for trial on cocaine charges while the extradition treaty was in force. But its general unpopularity, combined with constant threats and legal manoeuvring, ensured that the country's supreme court and council of state decided against extradition.

Within Colombia, top traffickers have never stayed in jail for long. So many judges and lawyers have been murdered — for example in March, cocaine gunmen assassinated the journalist-lawyer handling the case against Pablo Escobar for the killing of the editor of El Espectador newspaper — that courage is considered foolish, rather than honourable.

Left, police fire tracer bullets into a chemicals dump. Above, a small-scale cocaine laboratory

The violence generated by the drugs business and the fact that domestic cocaine consumption has become a serious problem, are the main reasons for confronting it. Other moral or economic arguments, including the way cocaine money has permeated political and financial institutions, carry little weight in Colombia.

The government refers to drug trafficking as the principal "destabilising" force in the country. Rivalry between the two main trafficking groups for control of distribution markets — known as the Medellin and Cali cartels — have left over 130 victims. Although most of the dead seem to belong to one or the other gang, the bombing campaign against a Cali-owned chain of chemists' shops has killed several innocents.

In some areas traffickers have made alliances with guerrillas; in others, guerrilla groups have forced out the drug cartels and taken over the business themselves. Drug financed paramilitary forces have beaten out guerrillas and peasants in zones where traffickers have bought large tracts of land.

Foreign assistance from the US, Britain and France, together with a fatter budget, has given the police new helicopters, communications equipment and machine guns. As a result of a purge of the police during the last two years — carried out by Gen Gomez when he was inspector general — about 1,000 people were dismissed.

The police director is concerned to regain public confidence, to run an efficient force and to ensure that the police are seen to be "as clear as crystal". The new image of a clean, lean force has already earned greater collaboration from the public, and the leadership is much praised by foreign drugs experts.

With a sustained campaign, hitting at the main processing centres over and over again, and breaking the prodnction chain, the anti-narcotics brigade is making an important dent in the cocaine business. If actions on other fronts — incinding the judicial — could be as effective, Colombia might shake the grip of cocaine's tentacles.

Sarita Kendall

OIL

Earnings drained by attacks on pipeline

"FORTUNATELY, we continue to sign contracts with foreign companies as we had planned," said Mr Andres Restrepo, president of Ecopetrol. Unfortunately, the Colombian oil company itself has recently become a direct guerrilla target, confounding the view that the transnationals were the enemy.

Guerrilla attacks on the pipeline from Cano Limon in the Llanos to the Caribbean terminal at Covenas have cost Ecopetrol and its foreign partners about $500m since the beginning of last year. This includes repairs to oil installations, the amount of crude spilt, and the loss of foreign income. With each attack, estimates of Colombia's oil earnings for 1989 are brought down: the latest figure, after the dynamiting of the Covenas terminal, is under $1bn.

Despite the security problems, exploration continues apace. Last year foreign companies drilled 61 exploration wells, and Ecopetrol 24. Ecopetrol signed 28 association contracts during 1988, and another 14 during the first half of 1989. Under the old association arrangements, output is split 50-50 with a 20 per cent royalty. A new type of association contract, known as "shared risk", covers areas where exploration risks are known to be low, and give Ecopetrol a bigger production share. Although companies were unenthusiastic about the contract at first, 18 have now been signed.

In 10 years crude reserves have risen from 550m barrels to 2,000m barrels. Apart from Occidental's big discovery at Cano Limon, smaller fields have been found in other parts of the Llanos and the Magdalena Valley. Colombia and Ecuador are to drill two wells each before the end of the year, to define a frontier field. Most companies want to be near existing infrastructure, according to Mr Restrepo, and it is proving more difficult to attract them to the north west and other new exploration areas.

Lasmo's manager in Bogota, Aivars Taurins, considers the Llanos has been disappointing — after the Cano Limon success, companies had hoped for larger structures. Although exploration continnes in the Llanos, with the hope that several small fields could be strung together, making more profitable use of production facilities — Lasmo is looking at other areas. "The key is the availability of good quality acreage. Ecopetrol has retained so much, and other contracts cover the good areas," said Mr Taurins.

Most foreign oil companies outside the Cano Limon area are philosophical abont the risk of working in Colombia. "They are not talking about winding down. They evaluate the risk and pay," said a security consultant. A company planning to explore in the Magdalena talked with army and police in the area, and decided it was "a risk of acceptable proportions. There is a problem, but it's perceived as greater outside Colombia," according to the manager.

In general, companies are more worried about their foreign personnel than about equipment. The National Liberation Army (ELN) specialises in kidnaps, from foreign engineers to local mayors and journalists — the latter to spread their oil message. In a surprise decision, Shell, which has big Colombian interests, is to set up offices in Cartagena. The Caribbean city has been relatively guerrilla-free up to now, but "an oil multinational's presence could change that fast," said a security expert.

Exploration continues, however. Last year foreign companies drilled 61 exploration wells and Ecopetrol 24

The ELN began its sabotage campaign in 1986, on the grounds that Colombia's oil reserves were being "stolen". Although the ELN had dwindled into obscurity after an army offensive killed its main leaders some 15 years ago, ransom money from oil contracting companies gave it new life in the 1980s. Led by a Spanish priest, the group has dynamited, kidnapped and murdered in the name of oil nationalism. It is now thought to number at least 1,500.

The guarrilla gronp's demands have varied, but they include the resignation of the oil minister and the president of Ecopetrol, the nationalisation of the Cano Limon oil field, a nation-wide forum to discuss oil policy, and the end of association contracts with foreign companies.

The government has said no to negotiations "under the deafening noise of dynamite". However, the main oil union — which the government claims is ELN-infiltrated — and the auditor ganeral support the call for an open oil debate. The recent change in energy minister has been interpreted as a sign that the debate may, after all, take place, assuming the ELN stops the bombing.

The government and Ecopetrol have been running massive campaigns to publicise the ways in which oil benefits Colombians, and the company has stepped up community assistance programmes in oil areas. It also pays substantial royalties to local government in the Cano Limon region — but scandals, rather than useful public works, have been the result. Among the projects is a giant swimming pool with artificial waves.

In the last month, the ELN has stepped up activities. On June 16 the group struck at the Covanas terminal, and the ensuing fire did enormous damage. Although exports were expected to resume by mid July, full repairs will take nearly a year. Extraordinarily, the terminal was apparently almost unprotected. The commander of the nearby naval base has been fired, and complicity among personnel at the terminal is assumed. Ecopetrol had been paying the armed forces to protect pipeline facilities.

Soon after, the guerrilla group sabotaged gas production in an Ecopetrol field near Barrancabermeja. And, the same week, one of Ecopetrol's vice presidents narrowly escaped a kidnap attempt at his Bogota home. The army commander promised to "finish off the ELN" and the government raised petrol prices by 10 per cent, saying this would help compensate for Ecopetrol's recent losses.

The state company has had to trim its programme. But a pipeline to carry crude from the central Llanos across the Andes to the Magdalena Valley will soon be in operation. A gathering system for several small Llanos fields may be built to feed in to the central pipeline. The Magdalena Valley also needs new lines to relieve bottlenecks, to bring in production from the upper part of the valley, and to provide a link to Covenas.

Colombia exported petrol and other refined products worth $1.36bn last year. With crude production averaging 374,000 barrels a day (it is mucb higher in sabotage-free months), a new refinery has been under discussion for some time. It is to be built up the Magdalena river from Ecopetrol's Barrancabermeja refinery, and will have a capacity of 75,000 barrels a day.

Although Colombia will be more than self-sufficient in oil beyond the end of the century, exploration is needed to bolster reserves and ensure exports continue in the late 1990s. The government stresses that it will not change the rules, regardless of left wing political pressures, and the country's reputation for contractual stability is well established. Ecopetrol plans to offer new areas for "shared risk" exploration later in the year and, judging from the transnationals' present attitudes, there will be bidders.

Sarita Kendall

COAL INDUSTRY

Whale and the minnows

THE SHERE physical size and high political profile of the El Cerrejon operation can easily dupe the observer into concluding that Colombia's coal industry is a one-mine operation.

And it is nndeniable that this joint venture between Exxon's Colombian offshoot Intercor and the Colombian state coal company Carbocol, dwarfs all other coal exporting activities not only in Colombia but throughout South America. It remains the world's most expensive steam coal exporting mine (costs of the operation are now put at $2.8bn, down from earlier estimates of $3.4bn) as well as its least profitable.

It is also by far the biggest with an expected 11.5m tonnes of exports this year and design capacity shipments of 15m tonnes variously scheduled between 1992 and 1994. Project engineers put ceiling capacity as high as 25m tonnes. The numbers are numbingly large and only comparisons with other whole exporting industries can make the size of the operation jump to life: from this single block in La Guajira, Colombia could export more steam coal than all the New Sonth Wales mines shipped last year; if the El Cerrejon Centrale block is developed in conjunction with El Cerrejon Norte (the Carbocol/Intercor block) then exports of 35m tonnes — equivalent to Sonth Africa's entire steam coal exports — are feasible from a single coal deposit.

No wonder El Cerrejon and the Colombian coal industry are thought to be one and the same. But the fact remains that two other companies, Prodeco and Carbones del Carribe, are already supervising vigorous exporting activities out of Caribbean coast ports and the Dutch trader, SSM is supervising the movement of Colombian coal over the Venezuelan boarder to be shipped from Maracaibo.

In comparison with the El Cerrejon whale these operations are minnows, bnt before very long the Guajira mine may have to deal with at least three other very big mining projects which could push the country to export levels of 40-50m tonnes before the end of the century.

The first of these is the El Cerrejon Norte neighbour, El Cerrejon Centrale, owned by the Communidad de El Cerrejon, descendants of those who were bequeathed the land by Philip II of Spain 400 years ago. Standing in the hot scrub of the Guajira it is hard to feel that Philip had particularly fond feelings for the original benefactors, assuming, that is, that Philip had no knowledge of the enormous, but hidden coal deposit.

Centrale has been producing significant tonnages for export over the last five years on an on-again-off-again basis. The only economic route to the market is through the north block's own port of Bolivar and the north block partners have no desire to provide easy money for what could prove a damaging competitor. The mine's 900m tonnes deposit has the potential of exporting anything up to 10m tonnes annually and the community says it can do so by trucking to the port of Zunige. If it does opt for this alternative it will be an act of desperation, presenting the operators with exceedingly high operating costs.

An easy and cheap route to port blocks easy development of the two other Colombian mega-mines, Prodeco's Calenturitas and the La Loma project being planned by Drummond of the US. Both are in the province of Cesar and both contain high-quality steam coal. Current reckoning predicts that these mines could produce 3m tonnes and 10m tonnes a year respectively within 10 years.

But at a recent conference in Cartagena, backers of hoth these projects threw the solution of the key problem of how to get the coal from mine to port back at the government. Mr Harold Waller, president of Drummond, detailed a variety of possible routes for the coal through the Caribbean ports of Cartagena, Barranquilla and Santa Marta, or even linking with the Cerrejon rail link to Bolivar. They all appeared to have one thing in common; they were expensive. Waller pointed out that many mines could be developed on the deposit to the benefit of the country and therefore Colombia should play a part in providing a solntion as well as reaping the benefit.

At least Prodeco knows which port it will be exporting through — its own facilities at Santa Marta. But the railroad — and Prodeco is the largest user of Colombia's state-owned railway system, according to Mr Rodrigo Loriente, chairman — needs significant investment. Indeed, Loriente argues that extensive investment in the country's antiquated railway system would not only help get coal from northern province's such as Cesar to the sea, but will also unlock the massive internal reserves of high-grade anthracite and coking coal.

It is hard to escape the feeling that Carbocol will not be in a rush to help Prodeco, Drummond and the Cerrejon Centrale community solve their problems. Its first concern is to get El Cerrejon Norte up to 15m tonnes. It is adding to its prohlems of substantial deht burden by a build-up to full capacity which is already three years behind schedule. Full ontput should have been reached this year but the earliest forecast date is now 1992 with some authoritative predictions putting it as far away as 1994.

Despite this, the gloomy days for the project seem to have been brushed aside. Carbocol's $1.5bn debt built up in the El Cerrejon development is being whittled away by a process of its parent company, Ecopetrol, repaying commitments in excbange for a greater share of the company. Ecopetrol now owns 90 per cent of Carbocol. In addition, prices are rising swiftly and, at $37-38 FOB a tonne for shipments to Europe, are proably 50 per cent higher than they were just two years ago.

For the first time El Cerrejon is being spoken of in the same sentence as profits, rather than an emphasis on mere cashflow. The corner is not yet turned but both Carbocol and Intercor now have the lesser consolation of believing that such a corner exists.

Gerard McCloskey

CUT FLOWERS

Computer sows seeds of an idea

THE COLOMBIAN cut flower industry has been a model success story. It is a case study of how entrepreneurial skill has exploited comparative advantage. No other legitimate economic activity in Colombia has received less official help yet proved so capable of fending for itself in the international arena.

Within little more than a decade, cut flowers bave become the country's fonrtb single largest export item, accounting for five per cent of the total. "This year we are aiming for exports of $250m against $204m in 1988," says Mr Jorge Enrique Uribe, head of the Flower Producers Association, Ascolflores.

Although the Netherlands still retain two-thirds of the world flower market, Colombia has carved out a niche in second place with just over 8 per cent. This share is nearly double the two nearest rivals — Israel and Italy. The industry in Colombia now employs full-time almost 70,000 people directly and another 50,000 in ancillary industries sucb as packaging and transportation. This employment has been an important factor in boosting incomes among poorer households in the capital.

"The origins of the industry date back to 1964 when a student at the University of California was using a computer tn select the ideal environment for growing flowers," says Mr Uribe. These studies ideotified the fertile high plateau round Bogota, where the climate is one of near permanent spring, yet with plenty of sunshine and temperatures that almost never fall below zero.

The first to experiment with cut flowers for export was a group nf three Americans. By 1970, nearly $1m-worth of cut flowers was being exported, and several of the traditional landowners in the Bogota "savannah" began to see the potential. Now there are more than 400 growers, 80 per cent of whom are in the Bogota area which has been converted into huge fields of tented plastic.

Colombia's flower production centres round carnatinns and roses and, to a lesser extent, chrysanthemums. The growers' advantage lies in the number of daily hours of sun and light which eliminates beating costs. There is also ehundant cheap (female) labour close at hand. Colombia is well located for the US market which absorbs over 80 per cent nf the country's total sales. Nevertheless, the growers have to fight hard to retain their competitive edge in Europe. Here they are up against Kenya and Israel from outside the Community — the former enjoying tariff waivers under the Lomé Convention, and the latter privileged treatment via special accords with the EC.

Colombia, on the other hand, is faced with stiff tariffs which have only just been reduced after a prolonged tussle with Brussels. The high season summer tariff (April-September) has been cut from 24 per cent to 20 per cent and the winter tariff from 17 per cent to 15 per cent. In addition to tackling these tariff barriers, Colombian flower growers have to absorb high freight costs. Mr Uribe estimates that 50 per cent of the CIF (cost, insurance, freight included) cost is accounted for by freight, whereas Kenya and Israel, with more competitive air services, pay a maximum of 20 per cent of the CIF costs on freight.

Inspection of flowers at the airport before export

In tha US market, meanwhile, Colombia's success has alerted other regional producers and now Costa Rica, the Dominican Republic, Ecuador, Mexico and Peru are all beginning to realise their own potential in this field. "We've got constantly to improve our quality and investigate as much as we can the possibilities of a broader range of flowers, including, eventnally, exotic species like the orchid," says Mr Uribe.

The industry also has to be highly flexible to exploit currency changes and take advantage of growth/recession in particular industrialised countries' economies. The Colombian growers are especially pleased about the way they have managed to establish a presence in the UK market which is now increasingly flower conscious. Last year UK sales were the equivalent of half the $24m worth of flowers sold to the EC. Perhaps in recognition of this UK presence, the Colombians stand at this year's Chalsea Flower Show won a gold medal.

"This is still a fast expanding business and, despite the competition, we don't envisage a levelling-off of demand," says Mr Uribe. It attracts both small scale investors as well as the larger traditional farmers. Land round Bogota is now being bought np for between $8,000 to $10,000 per hectare. But it then costs another $150,000 tn $200,000 per hectare to put in the necessary infrastructure. The largest holdings are around 200 hectares, while the average is closer to 5 hectares.

According to Mr Uribe, the Growers Association is careful to admit members and seeks to avoid the presence of any "narco-dnllars" in the industry. In part this is self-interest: the US authorities have got tough over the past three years, having fnund drugs being imported into the US concealed in shipments of flowers. These discoveries have caused considerable embarrassment to the industry which prides itself on being something of a gentlemen's club, comprising some of the country's oldest families.

Robert Graham

هكذا من الأصل

هكذا من الاجل

SURPRISING COLOMBIA

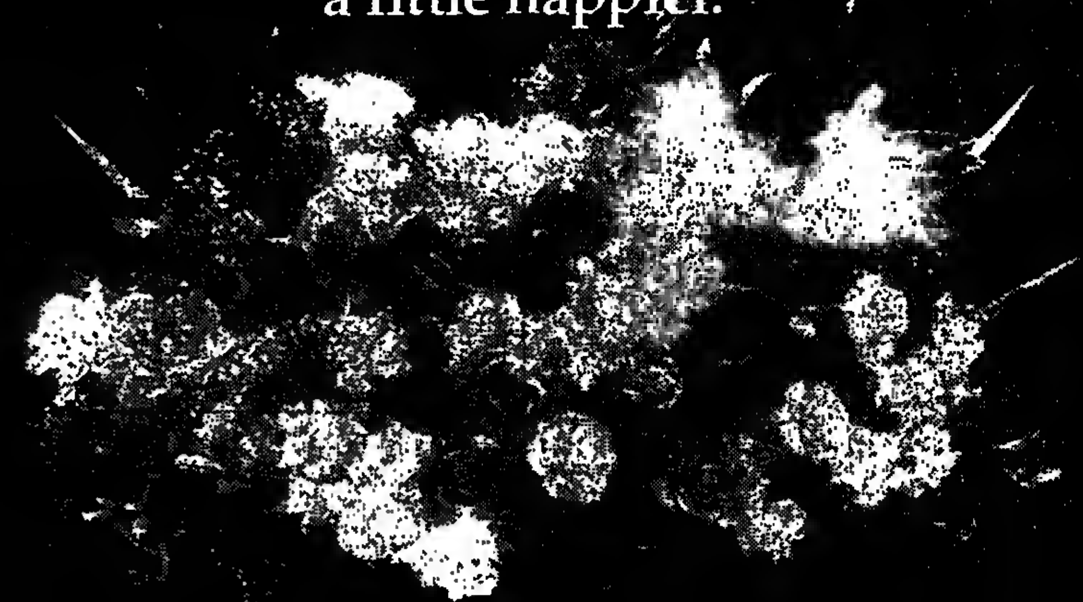
Can you find the rich, robust Colombian export in this picture?

If you guessed the cup of Colombian coffee, you're only partly right. But you'd also be right if you guessed the succulent seafood, the exotic fruits, the beautiful flowers, the lovely fabric of the tablecloth, even the fine leather wallet.

All of them are Colombian exports, and all of them are part of a diverse economy that is one of the fastest-growing in Latin America.

SURPRISING COLOMBIA
What's brewing now is diversity.

We help make 'Happy Anniversary' a little happier.

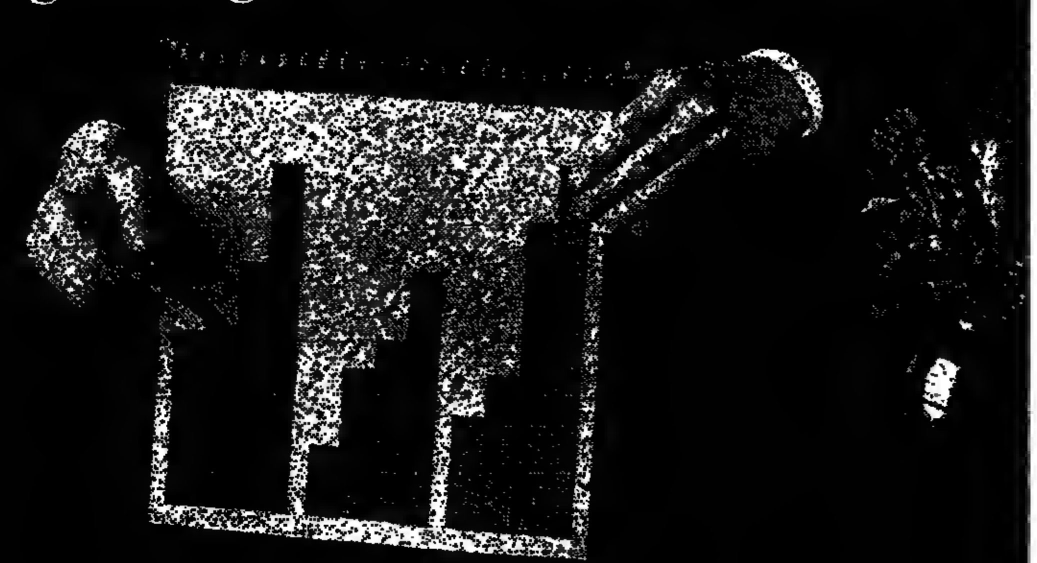


Today, you'll find 'Made in Colombia' not just on coffee but on a growing list of fine quality export products from industrial equipment to fresh seafood, quality leather goods, bananas, coal and our spectacular flowers (consider that most of the carnations you see in the United States are Colombian).

An economy that is blooming with positive growth every year for the past 38 years.

SURPRISING COLOMBIA
It pays to get to know us better.

The one Latin American economy that's growing like there's no mañana.

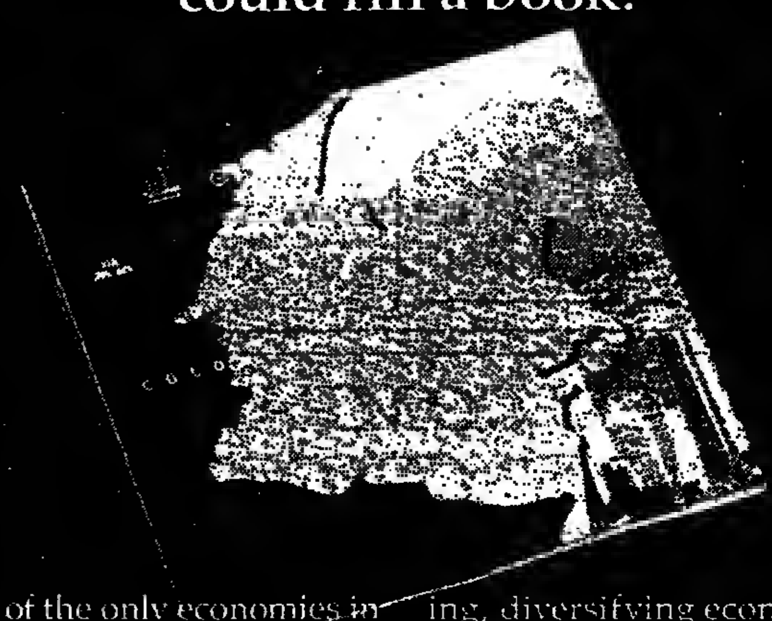


When you think of Latin American economies, you may think of hyper-inflation, stagnation and debt. Think again–and focus on Colombia. It's one of the only countries in the region to show positive economic growth every year for the past decade–and the only Latin American nation not to reschedule its debt.

Growth, diversity, and opportunity: That's the most pleasant surprise in Latin America.

SURPRISING COLOMBIA
It's pays to get to know us better.

What you don't know about our economy could fill a book.



What's one of the only economies in Latin America to show positive growth each year for the past decade? The only country in the region not to reschedule its foreign debt?

The answer is surprising–the answer is Colombia. It's a growing, diversifying economy that provides new opportunities every day. If you're interested, we'd like to send you a free copy of a book with all the facts. Just write us at Colombian Government Trade Bureau, 250 Park Avenue, N.Y., N.Y. 10177. 212 972-7476.

SURPRISING COLOMBIA
It pays to get to know us better.

COFFEE

Pact's demise will cost dear

THE COLLAPSE of the international coffee agreement is a blow to Colombia. The pact had been ailing for some time and, in Bogota at least, the United States is blamed for torpedoing it. However, despite the disillusion, Colombia is better placed than most to survive the abrupt price drop, world over-production and market instability: efficient organisation, healthy finances and quality add up to a powerful arsenal in the coffee war.

Coffee's contribution to earnings has fallen from about two-thirds to one-third of exports – around $1.5bn in an average year. Although it is expected that the pact's demise could cost $300m, coffee will probably continue to count for a quarter of foreign income, provided that export volumes rise to 12m bags or more.

"We're all going to lose, the producers will take the worst of it," said Mr Jorge Cardenas, head of Federacafe, the coffee growers federation. "We're losing a very valuable instrument. The pact has been good for Colombia – in its protective shade the coffee economy has flourished. Colombia has always worked to maintain the agreement. It's been a good tool for regulating prices and improving producers' incomes, and a debating forum for the coffee industry."

Colombia's slice of the world coffee trade has been about 15 per cent in recent years, second only to Brazil. West Germany and the US are its biggest customers, followed by other European countries and Japan. Private exporters and Federacafe have shared the foreign market – at present private companies have just over 50 per cent of it.

Coffee should still count for a quarter of foreign income

From the financial point of view, the fact that the 1988-89 harvest will be smaller than usual, about 11.4m bags, is no bad thing. In a normal year Colombia produces over 12m bags, with exports of 9.5m to 10m bags. Another 1.8m bags go to the domestic market, but these can be taken from stocks. Federacafe is well aware that putting more coffee on the market is likely to push prices even lower. The premium paid for Colombia's high quality milds has already narrowed, and could disappear if, say, exports went up by another million bags. But there are some optimistic analysts who claim the free market is an opportunity to reduce stocks and sell more, capitalising on the country's reputation for quality.

Stocks will fall substantially in the next three months, until the new harvest begins to come in. Colombia still has about 9m bags warehoused – at least 7.5m of export quality, according to Federacafe. From September newly modernised plantations will begin producing and private exporters will start buying.

The national coffee fund is stronger than it has ever been, and will cushion the effect of price falls. But anything under $1 a pound will cause serious problems. For the future it will be difficult to maintain a 12m-13m bag production level if world prices remain very low. Although growers are unlikely to pull up coffee bushes, plantations are not as well looked-after when domestic prices lag behind inflation. Farmers stop spraying against coffee rust and apply less fertiliser.

One important question is who will take the brunt of the price fall – the grower, the government or the coffee fund. In fact, all three will probably be affected and Federacafe has already said policy instruments will have to be juggled. These include export tax, the formula used to calculate dollar earnings brought into the central bank, and the payment in coffee and in pesos which exporters make to Federacafe and the coffee fund.

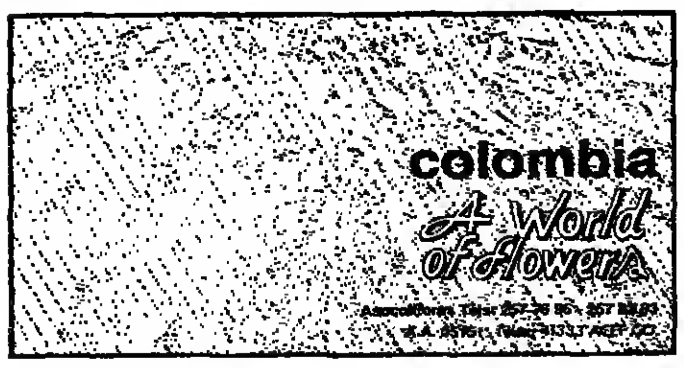
"The end of the pact implies changes in macroeconomic policy," said Mr Roberto Junguito, of the private coffee exporters' association. There could be an inflationary effect if Federacafe demands the return of money lent to the government. "It might also be necessary to increase the devaluation rate, to make coffee more competitive."

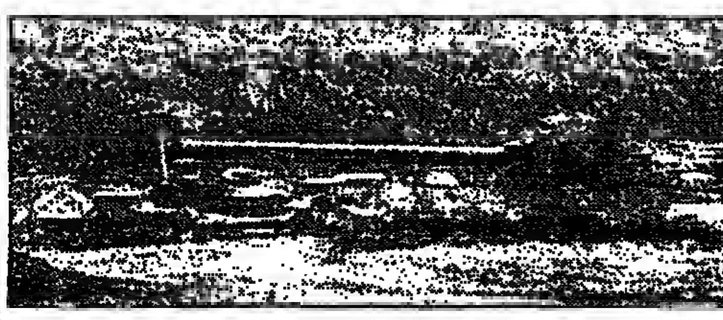
The coffee federation has a crucial role in shaping policy. Although this is unlikely to change with the end of the quota system, many of the development programmes financed through the coffee fund may have to be pared down. The enormous foreign publicity campaign, including, for example, a Colombian cycling team, the education and health projects, the roadbuilding and rural electricity schemes will have to be reassessed.

About a million hectares are sown with coffee, and it provides employment for over 400,000 people. In the central Andes, between 3,000 and 6,000 feet high, it is by far the most important product, and any sudden change in coffee fortunes affects a large, and until now, prosperous area.

To reduce dependence on coffee, Federacafe began a far-reaching diversification programme in the 1960s. The success of the programme can be measured by the fact that nearly 200,000 hectares have been sown with cocoa, sugar cane, mulberries (for silk worms), tropical fruits and other crops. Ironically, the federation is also helping to fund a coca substitution project, encouraging coca farmers to switch to coffee.

Sarita Kendall





The authorities are becoming more sensitive to environmental issues, reports **Sarita Kendall**

Green consciousness starts to blossom

COLOMBIA has a greater variety of birds than any other country: 20 per cent of the world's species. The blue-crowned motmot is ultramarine, turquoise, chestnut and grass green. The sapphire-scented puffleg humming bird has a long, seal-blue tail, hiding bright purple under feathers.

Most of the birds live in native forests which are being cut down at the rate of 600,000 hectares a year. Suddenly, green consciousness is blossoming, and both the government and the press are taking up the cause to save the nation's rich flora and fauna.

For the first time in Colombia, the natural resources institute (Inderena) shut down a transnational plant. Many fish were poisoned when Dow Chemical spilled a compound containing organophospates into Cartagena Bay last month. Although the company said less than 30 litres had reached the Bay, Inderena insisted Dow's plant should remain closed until officials had examined procedures for handling insecticides and pesticides.

Cartagena has long been an ecological hot-spot. The country's most important tourist attraction for its beaches, ancient resorts and colonial town centre, the city lies on a huge bay polluted with mercury and other toxic substances. Oil, petrochemicals and chemical industries line the inner shore, while stinking open canals tip raw sewage into the water. A coal port may also be built near Cartagena; if so, dredging to allow river barges through will send muddy fresh water out to nearby coral islands, killing underwater reefs.

To get possession, the colonist had to clear two-thirds of his land

Inland from Cartagena lies a region of undulating savanna and swampy lowlands, flooded for nearly eight months a year. The Zenu, who lived there before the Spanish Conquest, built an extraordinarily complex network of drainage canals, and farmed the ridged fields in between. Where there were once large self-sufficient villages, now there is the occasional family with a few livestock. The drainage channels have been abandoned, and every year the floods are more violent as deforestation affects the upper river valleys.

In a reminder of how free Colombian cultures managed the environment, the Central Bank has put on an exhibition of early farming, water usage and forest conservation. The message is that man and nature live in mutual respect, and that much can be learned from traditional methods in a country where erosion now affects more than 20 per cent of the surface.

Others, too, are critical of dependence on imported technologies. Las Gaviotas, in the Llanos, is an alternative technology centre which has not stuck at pilot schemes, but is spreading its ideas on an impressive scale: 1,200 mini-aqueducts supply water to small scattered communities; 20,000 sleeve pumps, capable of raising water up to 40 metres, have been installed; 25,000 houses – 8,000 of them in Bogota – are fitted with solar water heating; and thousands of cheap efficient lightweight windmills, the result of more than a decade of experiment, power water pumps.

Las Gaviotas has also introduced hydroponic vegetable growing to Bogota. In tiny backyards, on roof-tops and terraces, the growers can supplement monthly incomes by selling lettuces and celery which have not been treated with insecticides – they grow on shallow beds of rice husks mixed with coal slag. "If it's successful here, in one of the poorest barrios, with no piped water, imagine what we can do . . ." said an agronomist working with Las Gaviotas.

The man behind Las Gaviotas is Paolo Lugari, who inveighs against the expensive unsuitable technologies so often foisted on developing countries. He is especially proud of a solar cooking stove which, if developed on a massive scale, would help resolve one of the world's greatest environmental problems – gathering wood for fuel. The Caribbean pine is another promising venture. Grown in the worst soil of the Llanos with very little labour, the tropical pine – unlike temperate ones – allows flora and fauna to flourish in its shade.

According to the national planning department, an area bigger than Italy was deforested between 1960 and 1984. About three-quarters of the trees were cut down by colonists who do not even use the wood. *To get legal possession,* a 1961 law specified that the colonist had to clear two-thirds of his land. This has now changed: two-thirds of the land must be "exploited", but the definition includes the use of forest products and the maintenance of conservation areas.

Most of Colombia's Amazon and Pacific regions are still covered with forests. "We should leave them alone. It's the most important genetic bank in the world – we can't destroy species we haven't even discovered!" said Mr Lugari. Dangerous rapids on eastward flowing rivers have helped the flow of migrants into the Colombian Amazon, but the cocaine boom has been very damaging: jungle is cleared to grow coca, and the chemicals used in processing pollute rivers.

The Andean *cordilleras* provide disheartening evidence of uncontrolled deforestation and over-intensive farming. Huge landslides and sudden floods are often the result. Even the water catchment areas of big hydro-electric schemes have been neglected. Supposedly so rich in water resources, Colombia has many reservoirs surrounded by tell-tale bands of dry earth.

Recognising the weakness of national environmental agencies, the government has launched a forestry action plan to supply the forestry industry and preserve the country's natural heritage. The industry uses much wood from indigenous forest as from eucalyptus and pine plantations.

The plan aims to offer the private sector enough incentive to reforest 370,00 hectares in the next 10 years – more than double the existing plantation area. Other effects include forest management in colonisation areas, special protection zones and community involvement in conservation.

There are signs that city governments, too, are becoming more responsive and responsible on environmental problems. Three Bogota factories were shut down in one week for pollution. Costly proposals to clean up the River Bogota – often referred to as the most polluted river in the world – are being considered. Recycling rubbish gives hundreds of people an income. But buses continue to belch out black clouds of exhaust, keeping contamination levels high. Open rubbish tips dot the city landscape, while drainage channels dribble filth through hillside neighbourhoods.

So far, the press has concentrated on issues which are out of the average reader's control: trafficking in wild animals, mercury poisoning of streams from gold washing, deforestation, oil contamination, industrial waste, mangrove destruction and pesticides.

Three Bogota factories were shut down in one week

Although all these need to be tackled, results will come when people take an active part in community efforts and national campaigns, in the way, for example, the Cauca villagers have done: they police their own watershed to stop anyone cutting wood for cooking stoves.

Hydroponic culture on a Bogota roof-top: lettuces and celery are grown on shallow beds of rice husks mixed with coal slag

POPULATION

Family planning is now for social aims

ONE OF THE busiest places in Bogata is Profamilia's downtown family planning clinic. Women throng into the labyrinthine building, and rarely emerge with any complaints. Though less brisk, attendance at the male clinic alongside is picking up as Bogatanos begin to consider the possibility of vasectomy.

Colombia's population growth rate has dropped unusually fast, and is now under 2 per cent. Twenty years ago, women had an average of 6.7 children each; today they have about three. Not only does this mean the cake goes further – the economy has been growing at more than double the rate of the population – but it eases pressure on services and ensures better health for mothers and children.

Recent projections give Colombia a population of 33m in 1990 and 39.4m in the year 2000. The proportion under 15 years of age will drop from 38 per cent in 1985 to 32 per cent in 2000, as the country's age structure changes. And more people will live in cities: the urban population is expected to rise from 70 per cent to 77 per cent by the end of the century.

Bogata, with 4.5m inhabitants, is not the top-heavy capital typical of most Latin American countries. It has only 15 per cent of Colombia's population, while Medellin, Cali, Barranquilla and Cartagena together account for another 15 per cent. The biggest cities are no longer growing as fast as the medium-sized ones, so the demand for transport, sewerage and other services is better distributed. Living standards in the country – literacy, mortality rates, wages – are also inching closer to urban levels.

But though the massive rural-urban migration of the 1960s has eased, there are plenty of illegal squatters invading city lands. In Jerusalem, for example, on the outskirts of Bogata, families have access to the communal water taps for 20 minutes every other day. Four-wheel drive vehicles struggle up the steep, muddy streets, charging outrageous fares to passengers. And everyone's electricity is "pirated" by a tangle of dangerous-looking wires.

Social changes influence family size: in very few areas do people still want a football team of sons to work the land

A population policy – in the sense of reducing growth – is unnecessary, according to Jose Olinto Rueda of the National Planning Department. "Family planning has been assimilated. The population growth rate is no longer an obsession: we now support family planning for social aims – so people have the number of children they want, to help the situation of women, and to improve family living standards."

Despite the Catholic hierarchy's disapproval, Colombian governments condone family planning, some with minimal, others with substantial, support. President Virgilio Barco, a founder member of the IPPS-affiliated Profamilia, encouraged a primary health care programme with strong family planning content for the Magdalena Valley. The three year programme, which has the National Coffee Fund backing, is run by Profamilia.

Along the flooded river lands and in the forested Andean foothills, young instructors make house-to-house visits. They are welcomed with enormous interest by women who have heard of contraception, but are far from established services. In less isolated areas, Profamilia runs family health workshops, teaching people what they can do for themselves against dysentery, parasites, malnutrition and other diseases.

While the state also has a family planning brief, Profamilia, with 43 clinics and a far-reaching distribution programme, supplies about 60 per cent of Colombia's services. A 1986 survey showed that nearly 3m women (63 per cent of those in marital or common-law unions) used contraception. Pills and sterilisation were the most popular methods. But there is still an unsatisfied demand, especially in rural areas and on the north coast. "We've been going nearly 25 years but we're only half way," said Gabriel Ojeda of Profamilia.

Social changes such as increasing urbanisation, mobility, life expectation and literacy all influence family size. In very few rural areas do people still want a football team of sons to work the land. Mass vaccination campaigns, improved health care, and malaria control have had a huge impact on infant mortality. "All this leads people to favour family planning. The key is in the availability and accessibility of the services," said Mr Rueda. "Culturally and economically it is accessible – Profamilia's charges are very small."

Financing contraception in urban areas is only a quarter of the cost of reaching rural communities – and services in the newer frontier lands such as the Llanos and the north west are even more expensive. Profamilia depends heavily on outside funding – and its reputation was boosted recently by winning the United Nations population prize. Partly because of its success in fighting the battle to make family planning acceptable, Profamilia may now lose foreign financing. This would have a disastrous effect on services to the poorest and most distant communities.

Colombia has moved far from the time when family planning was seen as a way to lower the fertility rate. Although the technicalities are often discussed in radio health programmes, contraception is no longer a polemical issue. This has made it much easier for the Government and Profamilia to tackle AIDS education, and encourage condom use. It has also fostered high quality services, the envy of other Latin American countries.

Sarita Kendall

Family planning and women's rights – a talk by Profamilia

FINANCIAL TIMES
COMPANIES & MARKETS
Friday July 28 1989

INSIDE

Ford and GM feel pinch at home

The softening of demand in the US car and truck market began to take its toll in the second quarter on General Motors and Ford, the world's leading automotive manufacturers. But, while Ford suffered a 15 per cent decline in worldwide profits, GM's results were down by only 4 per cent from last year. Both companies said earnings from their international operations were still increasing and in GM's case the improvements abroad were almost sufficient to offset the weaker US results. Page 22

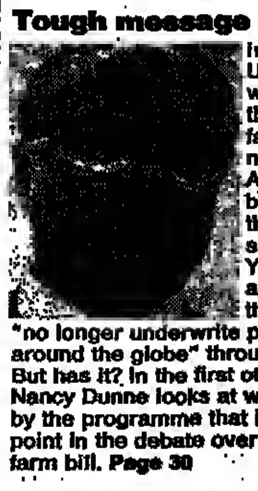
Slide from greatness

In the second half of the nineteenth century Zanzibar became one of the Indian Ocean's richest trading centres on the strength of its clove industry. The lush island once produced more than 90 per cent of the world's cloves and remained the world's largest producer until the 1970s, when increasing production in Indonesia coincided with a steep decline in its own industry. Nicholas Woodsworth examines the reasons for a slide that has led to it growing only a tenth of the world crop. Page 30

Stormy Bombay

The stock market in Bombay, where gales and floods caused severe damage over the weekend, has been more unsettled by the political tremors resulting from the latest twist in the Bofors arms sale affair. Shares fell heavily this week, and merchant bankers are now reviewing a programme of public offerings, writes R.C. Murthy. Page 42

Tough message



In Washington the 1985 US Farm Programme — which has contributed to thousands of small farms going out of business — is seen by the Administration as having been more successful than not. It sent a message, says Mr Clayton Yeutter (left), the US agriculture secretary, that the country would "no longer underwrite production expansion around the globe" through high support prices. But has it? In the first of a series of articles, Nancy Dunne looks at what has been achieved by the programme that is serving as a starting point in the debate over the forthcoming new farm bill. Page 30

Spain faces up to the end of an era

After nearly 160 years of virtually unchanged trading practices, today is the last day that Spain's Agentes de Cambio y Bolsa, the licensed notaries who have a trading monopoly, will walk on to the floors of the bolsas in Madrid, Barcelona, Valencia and Bilbao and trade as individuals. From Monday, they become limited companies. Peter Bruce looks at Spain's "Big Bang" — probably the most sweeping financial reform put into place since the death of General Franco in 1975. Page 24

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)			PARIS (FFr)		
Rises			Rises		
[illegible]	375	+ 7.5	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Falls			Falls		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEW YORK ($)			TOKYO (Yen)		
Rises			Rises		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Falls			Falls		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New York prices as at 12.30pm.					
LONDON (Pence)					
Rises					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Falls					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ICI profits up 18% in line with expectations

By Clare Pearson

IMPERIAL Chemical Industries, the UK's biggest chemicals company, yesterday announced pre-tax profits 18 per cent higher at £925m in the six months to the end of June, up from £783m in the comparable period.

The results were broadly in line with market expectations and the shares closed 1p higher on the London Stock Exchange at £12.54p.

There was a £41m increase in the second quarter over the first, largely representing gains on disposals such as Coopers Animal Health, and rationalisation in Canada. Exchange rates were more favourable during the second period and contributed about £20m to profits over the half.

Sir Denys Henderson, chairman, said: "In the next six months we expect to see some reduced activity as higher interest rates bite and there are signs of weakness in some of the world's market places. But these results provide a powerful platform to sustain and expand our businesses."

Turnover increased by 13 per cent to £6.64bn from £5.87bn, 6 per cent of which was attributable to price rises and 4 per cent to higher volume.

Trading profits for the group came out at £914m, up from £777m. Earnings per share increased in line with pre-tax profits to 82p (69.3p).

On ICI's central petrochemicals and plastics activities, Sir Denys said demand had lessened during the second quarter. He did not expect the strong market conditions of the first half to continue — "but neither do we expect this sector to fall off a cliff."

The industrial products division as a whole made trading profits of £445m (£351m). General chemicals put in £165m (£125m) and petrochemicals and plastics £230m (£187m).

The consumer and speciality products division made £302m (£293m), powered by the pharmaceuticals business which increased its profit contribution from £146m to £184m.

But decorative paints experienced weak demand, in both the UK and US. Films continued to suffer strong competitive pressures and high raw materials costs.

Agriculture mads £158m (£106m). Sir Denys said the mild winter had favoured the agrochemicals and plant breeding side, which boosted its trading profits to £145m (£118m). Action taken last year enabled the fertilisers division to return to profits, but market conditions had remained difficult.

See Lex

How Bob Bauman made merger history

Tony Jackson talks to the operational head of the newly-created drug company SmithKline Beecham

At ten o'clock this morning, in an unprepossessing office block in Brentford, west London, one of the world's biggest drug companies holds its first ever board meeting. It came into existence less than 48 hours earlier, in the first big transatlantic merger in modern business history.

SmithKline Beecham is above all the creation of Bob Bauman, the ex-Beecham chairman who is operational head of the new company. Bauman is sometimes seen as the classic American business school product: always affable, often bland, working behind a smokescreen of business platitudes. But when he talks about the making of SmithKline Beecham the manner changes. He is dealing with what he is best at: the analytical working through of a formidably complex project.

Until very recently, full business mergers — as opposed to takeovers — were a thing of the distant past. But Bauman, by his own account, started thinking about a merger for Beecham before he had even considered who to merge with.

Brought into Beecham as chairman three years ago, he took 18 months to decide that the company was not big enough to go it alone. "We'd been doing a lot of studies to see where the industry was going, and where Beecham would fit into it. Out of that came the conclusion that we had to improve our ability to compete long term in an industry that has to change.

"But we also had to perform against our financial objectives, which made certain things more difficult. You can do a small acquisition, but when you start looking at e major acquisition the cost becomes prohibitive in terms of earnings performance. So merger became a clear alternative.

"Then we came down to who were the people who would make sense. The strategy was to fit our strengths and our weaknesses against companies which would balance against us. That put the focus on the US; we are relatively strong in Europe, and our needs are in the US and Japan. In most cases, US companies are the reverse."

An immediate problem was the lack of models to go on. "The first major question is how you bring a US and UK company together — the technical points, tax and so on. The first time I contacted lawyers on that they weren't sure it could be done. The second question was what the odds were of being able to complete it. The conventional idea is that as soon as you announce a merger, you put yourself in play. It's fair to say that a lot of people said the risk profile was very high."

By this stage — a year ago — Bauman was already talking to SmithKline. But at the front of his mind was also the danger that a rival would come in and spoil the party. The analysis of this risk, he says, was highly complex. But much of it came down to the fact that what made a friendly merger attractive to him made a hostile bid unattractive to e third party.

"When you have a hostile takeover, first a lot of good management are going to leave. Second, you have a lot of difficulties with the employees. And finally, to win the day you've often got to say — look, you're a wonderful group, we'll let you operate as you are for a couple of years while we learn how to work together."

Once the scheme was approved in principle, teams came together from both companies for a closer look at the practicalities. Remarkably, this began last November, five months before rumours forced the merger plans into the open.

The plan went public in April, and by June a merger committee was set up of seven board members — four Beecham, three SmithKline. "That's been meeting two or three days a week, every other week. We've formed project teams underneath it, which is where the work is done. They're looking at key elements of integration — how you achieve sales growth, synergies, cost savings — each one has its own charter for what it's supposed to achieve. We have over 50 of these now.

"This does two things: it starts getting the projects under way, but also it starts bringing people together, and stops them thinking like SmithKline and Beecham people."

There is a more fundamental question to be asked about the scheme. Getting earnings growth out of the two companies will be relatively easy at first, as sales and costs enjoy the mechanical effects of the merger. But five years out, SmithKline's big earners — Tagamet especially — will be out of patent. What happens then?

"It's a good question. The driving force for the next three to four years is going to be incremental sales of products in the market now and coming into the market. The priorities are, one, keeping the company's momentum going, two, integrating the company, three, achieving the incremental sales and cost savings, and, four, making sure the pipeline of new drugs is brought through as fast as possible.

"As for incremental sales, take an example. Beecham has 700-plus medical reps in the US. SmithKline has 1,200. Both have spare capacity at present. We've already started on our co-promotion agreement, and by September we'll be training SmithKline's reps to sell Augmentin.

"The other element is cost savings. I can't put e dimension to that yet, but there will be some small savings this year. Then they'll really start coming in 1990, and will go on through to 1992."

He adds: "After all that, it depends on the pipeline coming through. We already have project teams working on understanding the two pipelines, to see where the priorities should be. You're now talking five years out, and that's a lot more speculative. If analysts say they can see some of the next three or four years, but it's harder to see five or 10 out — I agree with them, it is.

"But we have over £300m in research and development, and the fit is good. We are generally in the same therapeutic areas, without too much duplication. And we have a good fit of product flow. We have a lot of products in phase three of registration, and we have a bottleneck. SmithKline has a lot of products coming through in phase one and two, and not as many in phase three."

But does size help a drug company in its central objective, finding new medicines? "Not in itself. The key is to keep innovation, and you can argue that innovation can suffer if you get size. The pluses are that you have more money to undertake more research, which if it's done well will have more products coming through for development."

"One thing you have to do, I promise you, you've got to keep your focus. You cannot get distracted. Wa must make sure we're working on the things that are important, and get those done well."

Royal acquires Italian insurer

By Patrick Cockburn

ROYAL INSURANCE, the British composite insurer, is buying Lloyd Italico, a general Italian insurer, for £99m from Italy's Fondiaria Group. Fondiaria will retain a 10 per cent interest in the new subsidiary.

Royal said yesterday it had wanted to buy a non-life Italian insurance company for some time and believed that it was under-represented in Europe.

Lloyd Italico has approximately 1 per cent of the Italian general insurance market and a network of agents throughout the country. Before acquiring the Italian company, Royal did almost no business in Italy.

Commenting on the purchase, Mr Robin Rowland, Royal Group's general manager, said yesterday: "One of Royal Insurance Holdings' objectives is to increase our general business in profitable, expanding areas where we are currently under-represented. Lloyd Italico will strengthen Royal's network in continental Europe in advance of 1992."

Mr Rowland also welcomed closer links and co-operation with Fondiaria Group, Italy's third largest non-life insurance company. The company had an annual premium income of £1,233bn in 1988 and also operates in West Germany, Luxembourg, Belgium, the Netherlands, UK, France, Spain and Portugal.

Royal sees Italy as one of the fastest growing markets in Europe with spending per head on non-life insurance of £109 a year compared with £260 in the UK. The total market for general insurance is about £9bn and has grown an average of 14 per cent a year for the last five years.

Other European insurance companies have also been attracted to the Italian market by similar considerations.

There were at least six ventures with foreign participation in the first half of the year, the most recent of which was Commercial Union's link with Credito Italiano to sell life and non-life insurance through the bank's branches and direct sales outlets.

Nevertheless, some City analysts were sceptical yesterday about the immediate benefits of the deal for Royal.

Royal will pay about L220bn (£99m) for Lloyd Italico in four instalments over the next 18 months, including the cost of capitalising the company. When this is completed in 1990 the company is expected to have a gross premium income of about £94m.

BAT employs US 'detective agency'

By Nikki Tait

HOYLAKE, the vehicle through which e consortium headed by businessman Sir James Goldsmith is making a £13bn bid for BAT Industries, last night hit out at BAT's decision to employ Kroll Associetes, the corporete research firm, as part of its defence.

Politely described as engaged in corporate research, US-based Kroll has often been tagged with the "private investigator" label — although it publicly rejects the description's implications. Nevertheless, the firm has a reputation for digging up dirt in some bitter takeover battles.

Hoylake said that it "deplored" the use of BAT shareholders' funds in the retention of "detective agents et an undisclosed fee." It went on to "question the employment of e detective agency in the circumstances of an offer conducted under the auspices of the City regulatory authorities."

However, the tobacco, retail, insurance and paper group responded quickly. It said that Kroll had been taken on by its US lawyers — Cravath, Swaine and Moore — and that its activities would be restricted to financial investigation. It pointed out that the US insurance regulatory filings had suggested that several companies with stakes in Hoylake were based in countries "where the disclosure requirements are not the same as in the UK." These include the Cayman Islands and the Channel Islands.

BAT argues that it is in shareholders' interests to have the fullest possible information about the bidder.

Hoylake declined to say how it discovered that Kroll was being employed, and would not comment on whether there had been any evidence of "dirty tricks" to date. It said only that its suspicions had been aroused because "an agency such as Kroll was involved."

However, Lord Rawlinson, a former Attorney-General and e director of the quoted Anglo Group — which has voting control of Hoylake — resigned yesterday as a member of the European Advisory Committee to Kroll. Last night, Lord Rawlinson said that he had been a member of the committee for several months, and that he had resigned on hearing of Kroll's involvement.

In the UK, Kroll has featured most recently in the lengthy battle by Consolidated Gold Fields to defend itself against Minorco.

Meanwhile, Globe Investment Trust, Britain's largest investment trust, confirmed an interest yesterday in the type of alternative restructuring plan for BAT being mooted by Baring Brothers, the UK merchant bank. Barings is understood to be suggesting a group reconstruction around a single holding company with four classes of shares, corresponding to the four businesses.

Eurotunnel lenders await data on costs

By Norma Cohen

LENDERS TO Eurotunnel are waiting for data on cost over-runs from the Anglo-French Channel tunnel group which will determine whether it is in danger of default on some £5bn in credit lines.

National Westminster Bank, one of its leading bankers, said yesterday that Eurotunnel might have already breached key covenants in agreements with its lenders which set limits on cost over-runs. But until more information is supplied banks have no way of knowing for sure.

However, Eurotunnel said that as far as it knew the consortium had not breached loan covenants, but added that the full extent of cost over-runs was still unclear.

NatWest said the exact amount of the cost over-runs could not be ascertained until Eurotunnel submitted its next "cost to complete report", expected in early August, with e final determination by lenders set for September.

Such reports are required at least semi-annually under Eurotunnel's agreements with its lenders. In the event of a dispute about the data between Eurotunnel and its lenders, the banks' final determination prevails.

The loan agreements give Eurotunnel 90 days to satisfy its lenders that excessive cost over-runs will not occur. If such an assurance is not given, cost over-runs constitute an event of default.

Eurotunnel said last week that the cost of rolling stock would be about £600m, nearly twice the original estimate and that other costs were likely to be higher as well.

The company was said last week to be seeking £500m to £1bn in further bank loans to help it cover the cost of over-runs. Mr Alastair Morton, joint British chairman of Eurotunnel, has already ruled out an eddditional rights issue to raise cash.

Victoire to link up with W German insurer

By George Graham in Paris and Haig Simonian in Frankfurt

VICTOIRE, the French private sector insurance group, is to link up with Colonia, an insurance subsidiary of West Germany's Sal Oppenheim private bank.

Victoire said the new group would be one of the six largest insurers in Europe with gross premium income of FFr50bn ($7.9bn) and FFr150bn of assets under management.

The agreement announced yesterday provides for Oppenheim to transfer its shares in Colonia to a newly created holding company. Victoire will in turn transfer its insurance activities outside France to the holding company, in which it will be the dominant shareholder.

Suez, the privatised investment and banking group, holds a 30 per cent stake in Victoire, but the company is controlled by the Compagnie Industrielle with 40 per cent of the equity and 48 per cent of the voting rights. Compagnie Industrielle was until recently controlled by Mr Jack Frances, the former head of Suez, who made way earlier this year for Mr Jean-Marc Vernes, the financier.

Victoire has been seeking for some time an alliance with a major European insurer, and last year came to the brink of merging with the UK's Royal Insurance.

The deal fell apart last summer as Royal had seriously underestimated Victoire's substantial asset base.

Valuations carried out by independent accountants suggested Victoire should receive 35 per cent of Royal in return for transferring its businesses to the UK company.

The French company made profits of FFr1.459bn last year, up 16 per cent on 1987, with consolidated income of FFr17.1bn.

Its total assets amounted to FFr60.9bn, including underwriting provisions of FFr48.8bn.

The seventh largest insurer in France, if both nationalised and mutual insurance groups are included, Victoire is also one of the most profitable, with a net margin of 8.6 per cent last year compared with an average of 6 to 7 per cent for the rest of the French insurance sector.

Analysts say that it is also probably the best capitalised of the French insurers. Its principal weakness – its relatively small size on the wider European market – will be in part remedied by the alliance with Colonia.

Colonia, founded in 1853, is probably Germany's sixth biggest insurance group, with premiums of around DM4.1bn ($2.2bn) last year. However, its tradition of only consolidating about half its activities' figures makes exact assessment of its position complicated.

The company, based in Cologne, specialises in property and casualty insurance, which makes up over 65 per cent of its premium income. However, it has a number of subsidiaries, the most important of which is Colonia Leben, its life operation, which represents almost 30 per cent of total premium income.

Colonia also has a 58 per cent holding in the Nordstern insurance group, as well as 51 per cent in Kölnische Rückversicherung, (Cologne Re), one of Germany's biggest reinsurance companies. Among the specialised financial institutions it also controls are a health insurer, a building society and a mortgage bank.

The company's major shareholder is Sal Oppenheim, a long-established Cologne-based private bank, which is owned by the von Oppenheim family, reputedly one of Germany's richest clans.

Some analysts have suggested that Colonie's growth has been constrained in recent years by the parent company's inability to inject sufficient new capital to finance expansion. Thus Colonia has appeared to lag behind in the recent deomestic race to offer a wider range of financial services bridging banking and insurance products.

On the other hand, the group has proved attractive to shareholders, despite – or perhaps because of – its apparent undervaluation on the stock market. The controlling Oppenheim stake has made it resistant to bid speculation, while Colonia itself has shown little interest in making way for Winterhur, the large Swiss insurance group, which bought a 37 per cent stake in Nordstern in July 1987 and is widely felt to be interested in gaining full control.

Parretti pays bail on forex charges

By Peter Bruce

MR GIANCARLO Parretti, the Italian financier and chairman of the Pathe communications group, was forced yesterday to pay bail of Pta5m to a Spanish court, to avoid possible imprisonment while an investigation into charges that he broke Spanish foreign exchange regulations is carried out.

According to the Bank of Spain's monetary investigations brigade, Mr Parretti, who has important investments in Spain, recently made unauthorised payments of Pta50m ($424,000) to a business colleague in Andorra, Mr Antonio Cornella, who is also under investigation.

The payments were carried out on his behalf by Mr Parretti's senior business partner in Spain, Mrs Barbara Darder, and both she and Mr Cornella have also been given preventative sentences, though they have been allowed to remain free without paying any bail.

All three, though, have been told to lodge Pta50m each with the court as surety should any civil proceedings eventually be taken out against them.

Mr Parretti is the chief shareholder in Renta Inmobiliaria, a growing Spanish property group, which is quoted on the Madrid stock exchange. He took over the group, once part of the Rumasa financial group, in 1987.

An aide to Mr Parretti in Madrid yesterday said the charges against him were "crazy" and a "set-up," but that the bail had been posted in the morning, well within the 72-hour deadline set by the investigating magistrate on Wednesday night.

Under Spanish law, payments made in non-convertible pesetas on Spanish soil by non-residents for transfer out of the country are illegal. Mr Parretti, the central bank's monetary investigations team alleged, gave five Pta10m cheques to Mr Cornella who then took them to Andorra, where they were deposited with the Banco Agricola y Commercial.

Mr Parretti is close to senior Italian socialists which apparently helped pave the way for his early investments in Spain.

Banesto in dispute with affiliate over $130m bond issue

By Peter Bruce in Madrid

A POTENTIALLY damaging row has emerged between Banco Espanol de Credito (Banesto), one of Spain's main commercial banks, and one of its large industrial affiliates, Carburos Metalicos, a Catalan chemicals group.

The dispute is over an issue in the Euromarkets earlier this month by Banesto of warrants worth some 18 per cent of Carburos equity about which its management says it has still not been informed.

Angry complaints yesterday by Carburos' managing director, Mr Juan Grau Almirall, come at a delicate time for Banesto, which is trying to reform its vast industrial holdings and which has asked the Finance Ministry to forgive capital gains tax worth more than Pta25bn ($212m) if its industrial assets are revalued and transferred to a new holding company.

Banesto closed a $130m bond issue, with detachable warrants, in the Euromarkets on July 10. A novel element of the issue was that the warrants were convertible into equity in Carburos. Mr Grau said yesterday that he estimated the warrants issued were worth 18 per cent of his company.

Banesto owns just under 20 per cent of the chemicals group, making it the second largest shareholder after Air Products, but no-one at the bank's headquarters in Madrid could say yesterday whether issuing the warrants implied it planned eventually to extract itself from Carburos.

Mr Grau said Carburos management was "very perplexed" by what Banesto had done. "We still don't have any detailed information yet," he said. "I do not understand exactly what is going on."

Banesto's political problem might be that issuing warrants will reinforce already widespread suspicions in Government that the bank makes too much use of its industrial assets to finance its own operations and its modernisation. The bank's proposals to set up a new industrial holding company, grouping hundreds of important Spanish manufacturing companies, would transform its balance sheet.

The July 10 bond issue was designed to meet Banesto's long term foreign currency requirements but its chairman, Mr Mario Conde, has said that once the holding company is established and quoted on the stock markets that he might withdraw from selected industrial sectors.

But Banesto has already run in to trouble this year for boosting its profit and lose account with asset disposals. In January, shareholders complained that nearly half the Pta39bn pre-tax profit for 1988 could be traced back to sales of assets to its subsidiaries.

Mr Conde has threatened not to go ahead with the formation of the industrial holding company if he does not get the tax breaks from the Finance Ministry. The Government, though, remains sceptical, largely because the asset transfer that would give rise to capital gains tax will be occuring within the Banesto group and not as the result of a merger.

Nestlé lifts interim sales 35%

By John Wicks in Zurich

NESTLE, the Swiss-owned international food concern, recorded a rise in its consolidated sales of 35.4 per cent for the first half of 1989 to SFr23.6bn ($14.4bn).

The sharp increase is due in part to the acquisition of the Rowntree group of the UK and the Italian company Buitoni-Perugina. Excluding these and other acquisitions consolidated since mid-1988, and several divestments, turnover growth would still have been 19.4 per cent.

This increase is attributed by the Vevey-based parent company both to higher sales volumes and to favourable exchange rates. It expects a further rise in turnover in the second half.

For the year as a whole, Nestlé expects a rise in group sales of some 15 per cent, "provided there is no fundamental change in exchange rates." Last year, sales had already gone up by 15.4 per cent to a record SFr40.66bn.

First-half profits are not to be published – for the first time – until September.

Second-quarter reverse at Norsk Hydro

By Karen Fossli in Oslo

NORSK HYDRO, Norway's largest publicly quoted company, saw second-quarter net profits more than halved to NKr451m ($65.4m) from NKr924m in the first quarter, reflecting weaker markets and sales in three of the company's four main business sectors.

The downturn pushed half year net income down to NKr1.7bn from NKr1.84bn last year.

Half-year group operating income rose to NKr4.21bn from NKr3.58bn, helped by higher world crude oil prices, increased crude oil access and a higher US dollar value.

Second-quarter divisional results out-performed last year's with the exception of petrochemicals, but slipped from the first quarter. The agriculture division experienced the greatest setback in the second quarter with operating income plunging to NKr257m from NKr619m in the opening three months.

The division's European sales in the second quarter were proportionately smaller than in the first while overseas sales were below last year's level. Uncertainty and lower prices for ammonia and urea combined with normal seasonal fluctuations forced product inventories to be written down by NKr75m.

The oil and gas division by far out-performed other sectors with second-quarter operating income rising to NKr684m from NKr603m in the first quarter. Half-year operating income was NKr1.34bn against NKr707m last year.

Light metals saw second-quarter operating income nearly halved to NKr624m from NKr1.063n in the first quarter as metal prices declined while raw materials prices increased.

Though productivity improved, Hydro's markets were weaker this quarter.

Half-year operating income rose to NKr1.69bn from NKr1.18bn last year, however. Petrochemicals experienced a decline to NKr211m in second-quarter operating income from NKr314m in the first period. Half-year operating income also declined to NKr525m from NKr651m last year.

Hydro explained the decline as a result of flat PVC prices and lost production due to a maintenance and modification shutdown at an ethylene plant to increase production capacity.

Static half-year at Commerzbank

By Haig Simonian in Frankfurt

GROUP PARTIAL operating profits at Commerzbank, West Germany's third biggest bank, remained virtually unchanged at DM520m ($278m) in the first six months of this year compared with DM519m in the same period of 1988.

Partial operating profits at parent company level rose by 3.8 per cent to DM340m, while full operating profits, which are not disclosed but include gains from trading on the bank's own account, were below last year's figure on account of lower earnings in securities and foreign exchange trading.

Interest income at parent bank level grew by 1 per cent to DM1.19bn, while fee earnings jumped by 18 per cent to DM528m against the corresponding period last year, thanks to buoyant business in securities. For the first time, the bank released figures for interest and fee earnings at group level, which reached DM1.48bn and DM555m respectively.

The bank's figures confirm the continuing buoyant trend in domestic lending, with a marked rise in its long-term credit business. Deposit growth has also shown some signs of recovery.

French bank has licence revoked

THE BANK of France said it had withdrawn the banking licence of Lebanese Arab Bank (LAB) and had alerted the public prosecutor to certain irregularities found in the bank's accounts, Reuter reports.

In yesterday's statement, the central bank said LAB needed more than FFr240m ($37.3m) to cover bad debts, but reserves stood at only FFr66m.

An official receiver has been appointed.

BBV ahead at mid-term

By Our Financial Staff

BANCO BILBAO Vizcaya (BBV), Spain's largest bank group, yesterday announced group consolidated net profit of Pta65.5bn ($555m) for the first half of 1989 against Pta52.4bn a year earlier.

Return on assets was 1.85 per cent compared with 1.73 per cent. BBV said cash-flow after provisions rose 20 per cent to Pta97.5bn but gave no comparative figure. The bank last year announced a first-half cash-flow figure, before provisions, of Pta103.23bn.

Consolidated shareholders' equity rose above Pta500bn in the first half. Market capitalisation at the end of June was Pta937bn, the sixth largest for any bank outside Japan.

The smaller Banco Popular lifted consolidated earnings for the first six months of 1989 to Pta18.37bn from Pta15.49bn.

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Soft demand hits US auto groups

By Anatole Kaletsky in New York

THE SOFTENING of demand in the US car and truck market began to take its toll in the second quarter on General Motors and Ford, the world's leading automotive manufacturers.

But whereas Ford suffered a 15 per cent decline in worldwide profits, GM's results were down by only 4 per cent from last year. Both companies said earnings from their international operations were still increasing and in GM's case the improvements abroad were almost sufficient to offset the weaker US results.

GM put its worldwide net earnings in the second quarter at $1.45bn or $2.23 a share, about 4 per cent below the $1.51bn or $2.26 reported a year ago. Total revenues were up 1.2 per cent at $33.6bn.

The earnings attributable to the group's automotive operations were $1.35bn, compared with $1.40bn last year. Electronic Data Systems, the company's information services subsidiary whose stock trades separately from the parent company, earned $105m or 87 cents a share, 9 per cent up on the $96m or 78 cents last year.

GM Hughes Electronics, the group's aerospace and defence contractor, earned $240m or 60 cent a share, 33 per cent ahead of last year's $180m or 45 cents.

GM's worldwide factory sales of 2.18m vehicles were 2.9 per cent below last year's level. Sales of vehicles built in the US and Canada were down by 6.5 per cent to 1.56m units.

By contrast, sales of overseas vehicles rose by 7.2 per cent to 622,000. This figure includes the growing number of vehicles manufactured in the Far East by Korean and Japanese companies and imported into the US by GM.

Including these so-called "captive imports," retail sales in the US by GM dealers fell by 3.8 per cent to 1.53m units.

GM said its share of the US car and truck market in the second quarter was 35.5 per cent, slightly below the 35.8 per cent in the first half of last year.

The group said its overseas sales set new records in the latest quarter and in the first half of 1989.

Similar trends in global vehicle markets were reflected in Ford's results, which showed worldwide net earnings of $1.41bn or $3 a share. This profit was 15 per cent below the $1.66bn or $3.43 reported a year ago.

Ford's year-ago result had been the highest ever achieved by the company in any quarter. Ford's revenues increased by 4 per cent to $25.9bn.

Ford's worldwide automotive operations earned $1.2bn in the second quarter, down 15 per cent on last year. Financial services, the company's other reporting unit, provided net profits of $173m, 20 per cent below last year's contribution.

The geographical breakdown of automotive profits revealed Ford's steadily increasing reliance on its operations outside the US. Domestic automotive profits fell by 27 per cent to $459m, while profits from the overseas operations advanced by 7 per cent to $775m.

Ford's worldwide factory sales were 1.4 per cent up at 1.81m units, but sales of US-made vehicles fell by 2.7 per cent to 1.06m.

Ford said its share of the US car market in the first six months of this year increased by 0.8 percentage points from the same period a year ago to 22.7 per cent, while its truck market share was unchanged at 29.4 per cent.

In Europe, Ford's share was 11.8 per cent, 0.3 points up on last year. The company's share of the European truck market was 1.5 points higher at 12 per cent.

Cautious DEC ends year on weak note

By Roderick Oram in New York

DIGITAL EQUIPMENT has reported a 22 per cent fall in fiscal fourth-quarter earnings with weak US demand for its computer products offsetting strong sales abroad.

Mr Kenneth Olsen, Digital's president, said: "With lacklustre conditions in the US and the strengthened dollar depressing overseas results when translated into US currency, the company remains cautious entering the traditional low-volume September quarter."

Net profits for the quarter ended July 1 fell to $313.2m or $2.51 a share from $401m or $3.08 in spite of a 5 per cent increase in revennes to $3.49bn from $3.34bn.

"Our overseas markets saw double-digit growth in the quarter as a result of new hardware, software and service product offerings, coupled with a strengthened sales and marketing organisation," Mr Olsen said.

"Business conditions in the US are still somewhat slow, with fourth-quarter revennes similar to those of the same period a year earlier but up from the prior quarter."

Digital is adjusting its capital and discretionary spending to reflect the conditions.

The company had to cope with difficult domestic conditions through most of the year, with results particularly weak in its first quarter.

The full-year net was down 18 per cent at $1.07bn or $8.45 a share from $1.31bn or $9.90 on revenues which rose 11 per cent to $12.74bn from $11.48bn.

Analysts believe the softening US economy will continue to hamper Digital's performance in the early part of the new fiscal year. But it should start to benefit later from new medium-intermediate computer models introduced in July.

Users are also looking forward to other new models this year, including some at the high end of Digital's range. Profits have been suffering from greater strength for models at the low-end of the market, rather than the high end.

Delta and UAL earnings soar to record levels

By Karen Zagor in New York

UAL AND Delta Air Lines, two leading US airline companies, helped justify analysts' expectations of a strong quarter for the airline industry by reporting record earnings.

For the three months ended June 30, UAL, parent of United Airlines, the second largest domestic carrier, saw income advance 14 per cent to $141.1m or $6.52 a share from $124.2m or $5.77 the previous year. Revenues were up 11 per cent at $2.29bn from $2.06bn.

For the first half net profits were $206.5m or $9.55 against $701.0m or $19.12 a year earlier. Last year's results were distorted by a one-time gain of $548.5m or $14.98 resulting primarily from the sale of the company's interest in Westin Hotels.

In the first six months revenues advanced 11 per cent to $4.8bn from $4.3bn.

Although United's passenger traffic fell 2 per cent in the quarter, yield increased 14 per cent to 12.6 cents. Operating revenues from passenger miles rose 12 per cent to $2.20bn from $1.97bn. Operating revenues for cargo were virtually unchanged at $127.9m from $126.4m.

Delta Air Lines, the third largest US domestic carrier, said net income in the fourth quarter ended June 30 soared by 85 per cent to $190.8m or $3.87 from $103.3m or $2.11 a year ago. Revenues advanced 24 per cent to $2.17bn from $1.87bn.

For the full year, net earnings were a record $460.9m or $9.37, up 50 per cent from $306.8m or $6.30 the previous year. Revenues rose 17 per cent at $8.09bn from $6.92bn.

Mr Thomas Roeck, senior vice president, said: "Strong traffic growth, along with modest increases in the average yield per passenger mile, in both the quarter and the fiscal year were the key elements in Delta's excellent performance."

The Atlanta, Georgia company acknowledged benefiting from the strike at Eastern Air Lines in the latest quarter, which inflated Delta's passenger traffic. However, Delta said traffic also grew strongly in markets not directly affected by the strike.

Operating expenses in the quarter increased 19 per cent to $2.03bn, with operating capacity up 5 per cent. Passenger revenues rose 24 per cent to $2.17bn as a result of an 18 per cent increase in revenue passenger miles and a 4 per cent rise in the average yield per passenger miles. Operating revenues from cargo was $102.6m against $87.7m. Operating income jumped 69 per cent to $284.2m in the quarter.

For the year, income from operations increased 36 per cent to $678.3m. Operating revenues rose 17 per cent to $8.09bn. Passenger revenues grew 18 per cent to $7.58bn with passenger miles up 14 per cent and average revenue per passenger mile 3 per cent ahead. Fuel costs increased by $5m thanks to a 5 per cent fall in fuel prices which helped offset a 6 per cent increase in consumption.

In recognition of the company's record earnings, Delta declared a special dividend of 50 cents a share, payable on October 1.

BCE edges ahead to C$542m

By Robert Gibbens in Montreal

BETTER results from its telecommunications utility and acquisition of Montreal Trustco brought a 4 per cent gain in first-half earnings at BCE, Canada's largest holding company.

Net profit was C$542m (US$459m) or C$1.81 a share, up from C$519m or C$1.82 on fewer shares outstanding. Revenues were ahead by 9 per cent to C$9.1bn.

Second-quarter net was C$301m or 99 cents, up 9 per cent from C$277m or 96 cents a year earlier, on revenues of C$4.3bn, an increase 13 per cent.

BCE bought Montreal Trustco last April. It has already reported strong growth in revenues and earnings for the first half.

Bell Canada, the regulated utility, earned C$427m in the half, up from C$400m a year earlier. Northern Telecom contributed C$74m, compared with C$88m.

Theme parks buoy Walt Disney

By Karen Zagor

WALT DISNEY, the US entertainment group which has been enjoying a revival in fortunes, yesterday reported its best third-quarter performance, thanks to strength in its theme park business.

The Burbank, California group said its net income for the third quarter ended June 30 rose 17 per cent to $193.3m or $1.40 per share against $165m or $1.20 a year earlier. Revenues improved 28 per cent to $1.17bn from $915.7m.

For the nine months, net income advanced 27 per cent to $490.6m or $3.56 from $385.6m or $2.81. Revenues were up 34 per cent to $3.25bn.

The company said the record earnings for the nine-month period were the result of strong contributions from all three of its main businesses.

Disney attributed gains in the latest quarter to outstanding results from Disneyland and Disneyworld. Higher attendances and increased spending resulted in a 32 per cent rise in operating income to $727.9m. The Disney-MGM Studios theme park, which opened in May, was also a strong contributor in the quarter.

The filmed entertainment division enjoyed strong profits. Operating income rose 14 per cent to $54.5m on revenues up 37 per cent to $354.5m. The company said the improvement was led by strong foreign results. The segment was also helped by growth in the home video and syndicated television markets.

In consumer products operating income advanced 18 per cent to $39m on a 52 per cent jump in sales.

PWA again in loss during 'transition'

By David Owen in Toronto

PWA, the Calgary-based company which owns Canadian Airlines International (CAI) and which recently bought Wardair, has reported another quarterly loss in what it has described as "a year of transition."

Net second-quarter losses totalled C$17.7m (US$15m) or 66 cents a share, compared with a small profit of C$3.5m or 9 cents in the year-earlier period. The figures include net losses accrued by Wardair from the date of its acquisition on April 25.

The loss brings the overall deficit for the six months to June 30 to C$35.2m or C$1.50, compared with earnings of C$11.5m or 43 cents in 1988.

● Canada's three largest publishing groups have reported strong first-half results, in spite of pessimistic forecasts of declining advertising, writes Robert Gibbens in Montreal.

Maclean Hunter, with strong performances in its cable TV commercial printing and broadcasting operations, saw net profit of C$47.2m or 30 cents a share, up from $44.3m or 29 cents a year earlier on revenues of $686m, up 11 per cent. Revenues were up 10 per cent at $353m.

The Toronto Sun subsidiary suffered a 20 per cent drop in second-quarter profits. The results reflect Maclean Hunter's share of losses in the Financial Post Daily.

Southam saw first-half earnings rise to $46.2m or 78 cents, up 12 per cent from $41.3m or 69 cents a year earlier on revenues of $835m, an increase of 4 per cent.

Torstar, which operates the Toronto Star, Canada's largest circulation daily newspaper, earned $49.5m or $1.24 a share, up 3 per cent from $47.9m or $1.19 a year earlier. Revenues were unchanged at $463m.

Brierley moves in on Cummins

By Anatole Kaletsky

CUMMINS ENGINE, the beleaguered US diesel engine maker which arranged a thinly disguised greenmail payment only last week to rid itself of Britain's Hanson as an unwelcome shareholder, is under pressure again.

Industrial Equity, the Hong Kong-based holding company controlled by Sir Ron Brierley, the acquisitive New Zealand financier, has acquired a stake of 9.9 per cent.

The Brierley announcement, which came in the form of a filing with the Securities and Exchange Commission, immediately unleashed renewed speculation about a takeover or restructuring at Cummins. IEL said it had bought its stake as "an investment" but it reserved the right to change its intentions towards the company at any time.

Although Cummins and its advisers were unavailable for comment, the new uncertainty created by the Brierley stake was bound to be a blow not only for the management but also for Mr Irwin Miller, the wealthy former chairman who put up $5m of his own money to help the company arrange the buy-out from Hanson only last week.

The 80-year old Mr Miller who, along with his wife and sister, bought the Hanson shares and then sold them back at a somewhat lower price to the company, emphasised that he was accepting a personal loss in order to free the company and its hometown Columbus, Indiana from "the uncertainty of a possible takeover."

As part of the indirect greenmail payment, Mr Miller signed a "standstill agreement" with Hanson preventing the British conglomerate from buying shares in Cummins for 10 years. He clearly did not suspect, however, that another international corporate raider was waiting to pounce the moment the Hanson threat disappeared.

Many companies which have paid greenmail in the past have found that the initial payments merely encouraged other raiders. But never before has a new threat materialised so quickly.

IEL disclosed yesterday that it had bought almost half its $1.01m shares in Cummins during the three days after Mr Miller announced his deal with Hanson.

The company's apparent failure to foresee or prevent such an accumulation by a new raider at the time of its greatest vulnerability could also prove embarrassing to Morgan Stanley, the Wall Street investment bank which advised Cummins on the Hanson deal.

Cummins, which is the world's largest maker of diesel engines, has fought a successful but extremely costly battle for worldwide market share against Japanese competitors.

Imasco climbs to C$144.4m

IMASCO, the Canadian financial services, retailing and tobacco products group 40 per cent owned by BAT Industries of the UK, has reported an 18 per cent gain in first-half earnings, Robert Gibbens writes from Montreal.

Net profit was C$144.4m (US$122m) or C$1.12 a share, up from C$121.9m or 96 cents a year earlier on revenues of C$2.6bn, down 9 per cent.

In the second quarter net income advanced by 17 per cent to C$90.3m or 70 cents a share, on sales of C$1.4bn, a 4 per cent decrease.

Nearly all divisions, including tobacco, performed better in the first half.

New dry beers cheer Anheuser-Busch

By Roderick Oram in New York

ANHEUSER-BUSCH strengthened its grip on the US brewing industry in the second quarter with a further increase in market share and record sales and profits which reflected, in part, demand for its new dry beers.

Net earnings rose 10.5 per cent to $233.7m or 82 cents a share from $211.5m or 72 cents. Sales net of excise tax were $2.48bn against $2.32bn.

Beer volume expanded by 3.7 per cent to 21.4m barrels, equal to a 1.4 percentage point increase in market share to 42 per cent.

First-half net was $400.8m or $1.40 against $363.9m or $1.23 a year earlier on net sales of $4.66bn against $4.4bn. Beer volume rose by 3.8 per cent to 41m barrels.

Mr August Busch, chairman, said the group was particularly pleased with consumers' acceptance of Michelob Dry, which was sold nationwide last November. Three new products have been introduced into test markets since then: Bud Dry, Busch Light and O'Doul's, a non-alcoholic malt drink.

Analysts are expecting Bud Dry to be introduced nationwide later this year, underscoring the success of this new high-margin sectorket.

Better chemical margins boost Shell Oil

By Our Financial Staff

SHELL OIL, a subsidiary of Royal Dutch/Shell, lifted profits substantially in the second quarter after an improvement in earnings in all segments.

Profits climbed to $440m, a $166m increase on the same quarter last year, while first-half earnings rose to $801m, up $138m over last year's period.

Revenues advanced to $5.9bn for the quarter and $11bn for the first half, compared with $5.4bn and $10.5bn for the respective 1988 periods.

Improved chemical margins were the principal factor in the earnings improvement which, with higher crude oil prices, more than offset the effects of lower crude oil and natural gas production and lower refined product sales volumes.

The company said it was encouraged by the record first-half performance but sounded a note of caution on the second-half outlook, given trends in oil prices and downstream business.

INTERNATIONAL COMPANIES AND FINANCE

Elders investors approve Elliott plan

By Chris Sherwell in Sydney

SHAREHOLDERS IN Elders IXL yesterday approved a plan which could strengthen chairman Mr John Elliott's personal control over the Australian brewing, agribusiness and finance conglomerate.

They also heard that Mr Elliott's simultaneous on-market offer to buy Elders shares for A$3.00 per share was less than s A$3.36 to A$3.79 valuation placed on the shares by First Boston Australia.

The developments came at a well-attended special shareholders' meeting in Melbourne. It was also revealed that the proposed float of Elders brewing interests was not likely before March or April next year, and could be in North America rather than Britain, which was previously envisaged.

The meeting saw vigorous questioning over the evident shift in control of Australia's largest company to Harlin Holdings, in which Mr Elliott is the largest shareholder and fellow directors have substantial stakes.

Harlin is underwriting a pro-rata offer to Elders shareholders of 318m shares, or 17 per cent, being sold by Petitio, a joint venture between the AFP investment group and food giant Goodman Fielder Wattie.

The plan, first announced in May, generated controversy because the price of A$3.00 per share was higher than the market rate and favoured Petitio at the expense of other shareholders wanting to sell.

It also meant that Harlin, if it took all Petitio's shares, stood to lift its Elders holding from 25.1 per cent to 42 per cent – and over 50 per cent if convertible notes and options were taken into account.

Harlin's on-market offer of A$3.00 per share, unveiled this month, aimed to circumvent these problems by giving shareholders the chance to acquire Elders shares at A$3.00, sell at A$3.00 or maintain their existing holding.

Yesterday, Mr Elliott said that the five Elders directors not connected with Harlin would recommend against shareholders selling at A$3.00. He also said thet eight of the 10 interested directors, including himself, would also recommend against selling.

On this basis, Harlin apparently intends shareholders not to taka its offer seriously.

Equally, however, it is not clear how many of Petitio's Elders shares will end up in Harlin's hands. On the Stock Exchange yesterday, Elders shares closed at A$2.96, down two cents.

To support its offer, Harlin has arranged A$6bn (US$4.5bn) in financing. Details show that Molson, the Canadian brewer, with Prudential Bache, Compagnie Financière de Suez and the Hongkong and Shanghai Bank, have offered A$1.1bn in committed and stand-by equity to support the bid.

In addition, a senior debt facility of A$3.6bn has been arranged by the Hongkong Bank with a consortium of participating banks, and a further A$1.3bn sub-ordinated debt facility is being provided by Citibank.

The amount of new equity to be drawn down will depend on the number of shares acquired under the on-market offer. But the Elders directors insist that they "will retain control of the voting and economic interest in Harlin."

Mr Elliott is also telling anxious Elders shareholders that the interests of Harlin and Elders cannot diverge because of the covenants which effectively stipulated this when the group was initially set up.

Thesa covenants involva BHP, whicb was financially involved in the acquisition by Harlin of some 350m Elders shares in 1987, whan BHP underwent s restructuring to remove Elders and Mr Robert Holmes à Court from its share register.

Growth slows at Bank of East Asia

By John Elliott in Hong Kong

BANK OF East Asia, Hong Kong's largest family-controlled bank which has close links with China, yesterday reported consolidated profits after tax and undisclosed transfers to inner reserves of HK$90.22bn (US$11.6bn) for the first half of 1989.

This is 13.8 per cent np on last year's first half HK$79.28bn. But the profits growth has fallen back from 15.2 per cent in the same period last year and 25.1 per cent for all 1988.

Undisclosed transfers to inner reserves are belie ved to be bigger than normal because of concern about the risk of borrowers failing to honour commitments if the colony's property market continues to decline. This could become a serious prohlem if the current brain drain expands rapidly into large-scale emigration following China's Tiananmen Square crisis.

Mr K.C. Chan, company secretary, said the results had also been affected by a slowing down in Hong Kong's economy.

An interim dividend was announced of 25 cents a share, compared with an adjusted interim of 20 cents last time.

Cadbury S African arm buys local sweets maker

By Jim Jones in Johannesburg

CADBURY SCHWEPPES South Africa, a subsidiary of the British confectionery group, lifted sales by more than a fifth in the first half of the year and has broadened its product base by acquiring a local confectionery manufacturer.

The interim turnover was lifted to R158.8m ($58.8m) in the six months to June 14 1989, from R130.7m in the corresponding year-ago period. The interim operating profit before tax and interest rose to R13.4m from R11.0m and the pre-tax profit was R12.4m against R9.2m.

For the last financial year, turnover was R326.5m, the operating profit was R32.0m and the pre-tax profit was R28.8m.

The directors are not optimistic about immediate trading conditions and warn that sales of confectionery and soft drinks are likely to slow with the economic squeeze.

The company has acquired 82.5 per cent of Chapelat-Humphries, a chewing gum and sweets manufacturer, but the acquisition is not expected to appreciably affect this year's earnings.

First-half earnings rose to 28.8 cents a share from 23.9 cents in the first half of 1988, and the interim dividend has been lifted to 8 cents from 6.6 cents. Last year's full earnings were 69.7 cents and the total dividend was 30 cents.

Equity deals enlarge Berjaya

By Lim Siong Hoon in Kuala Lumpur

BERJAYA, a Malaysian textile and property group, bas emerged as one of the country's leading conglomerates in a series of equity deals involving four companies, all listed on the stock market.

To help finance the deals, Berjaya has offered a one-for-one rights issue of its 210m shares at 1.30 ringgit a share. The cash call could eventually double the company's market worth to more than 600m ringgit (US$299m) and catapult it to become one of the top 40 corporations in the Malaysian and Singapore markets.

Berjaya's prized catch is TV3, Malaysia's only private – and very profitable – television station, in which so far it has bought an 18 per cent stake for 41m ringgit in cash. Most of the stocks came from Uniphone, a telecommunications company.

In the meantime, Inter-Pacific Industrial (formerly Raleigh), Berjaya's 82.3 per cent parent, has sold its entire 32.8 per cent holding in Sports Toto, a lottery company privatised by the Government a few years ago, to Berjaya for 138m ringgit, also in cash. This deal raises Berjaya's own holding in Sports Toto to 93.3 per cent.

Inter-Pacific has also begun selling its Berjaya stocks through stockbrokers abroad. Three blocks of shares, totalling 69m shares priced at between 1.95 ringgit and 2.18 ringgit each, were placed out to one Hong Kong and two Singapore brokers, one of the latter on behalf of management funds in the US and Britain.

Inter-Pacific's 82.2 per cent ownership in Berjaya has been pared down to 57 per cent so far; its sale of stocks has raised about 280m ringgit, which will be used to settle part of its 479m ringgit debt and pay for Berjaya's cash call.

With contributions from Sports Toto, Berjaya expects the year ending April 1990 to raise 78m ringgit in pre-tax profit, Berjaya told its shareholders in a statement.

Mitsubishi Bank issue

MITSUBISHI Bank, Japan's fourth-largest city bank, is to raise abont Y163bn througb the public placement of 50m new shares at more than face vaine of Y50 each in the domestic market, Reuter reports from Tokyo.

Terms, inclnding issuing price, have still to be set. The bank's shares closed Y30 up at Y3,390 on the Tokyo Stock Exchange yesterday.

Underwriters are Nomura Securities, Yamaichi Securities, Yamaichi Securities, Nikko Securities, Ryoko Securities, Marusan Securities, Tokyo Securities, Toyo Securities and New Japan Securities.

The issue will increase Mitsubishi's ontstanding capital shares to 2.73bn from 2.68bn.

Demand at home lifts Asahi Glass

By Our Financial Staff

ASAHI GLASS, Japan's leading glass manufacturer, has reported a 7 per cent rise in pre-tax profits in the first half, which ended on June 30. They increased to Y39.23bn ($277m), compared with Y36.53bn in the first half last year.

Strong domestic demand from the vehicle and housing industries helped to push up sales to Y437.04bn, 12 per cent up from the Y389.29bn.

Sales of insulating glass, reinforced glass and other "functional" glasses were particularly strong, while glass bulb sales were higher on increased exports to Southeast Asia to make televisions, the company said.

Operating profit rose by a modest 2.9 per cent to Y32.0bn, compared to Y31.1bn, as costs of sales were pushed up by increased capital investment.

Hooker Corp shares suspended

TRADING in the shares of Hooker Corporation, the debt-burdened Australian property and retail group, was suspended yesterday, Reuter reports from Sydney.

An Australian Stock Exchange official said that the suspension, which is for an indefinite period, followed the company's decision to ask the Supreme Court of New South Wales to appoint a provisional liquidator.

Hooker shares closed on Wednesday, the day before the suspension, at 26 cents, a fall on the day of 12 cents. The year's high stands at A$2.15.

The provisional liquidation was made necessary when a task force of its bank lenders terminated a moratorium agreement on Tuesday.

The task force agreed on July 11 to a four-month moratorium on debt repayments to give Hooker time for an orderly disposal of assets to reduce its debt.

Mr George Herscu, still nominally company chairman, said yesterday that the company had sufficient assets to wipe out its estimated A$2bn (US$1.5bn) of debt.

"Hooker has got rich assets," Mr Herscu said on commercial radio. "Hooker does not have to sell in a fire sale. Hooker can continue its business with a little injection of money."

Mr Herscu said up to 14,000 small investors would see only a fraction of their original investment after liquidators sold off their assets. He estimated he would lose A$250m.

INTERNATIONAL CAPITAL MARKETS

Spain braces itself for Big Bang

Peter Bruce reports on Madrid's coming stock market deregulation

Mr Pedro Guerrero is not a plumber. A stockbroker and newly-elected president, at 36, of the Madrid stock exchange, he confesses nevertheless to having spent the last six weeks feverishly plugging holes.

After nearly 160 years of virtually unchanged trading practices, today is the last day that Spain's *Agentes de Cambio y Bolsa*, the licensed notaries who have a trading monopoly, will walk on to the floors of the bolsas in Madrid, Barcelona, Valencia and Bilbao and trade as individuals.

This is Spain's 'Big Bang' – probably the most sweeping financial reform put into place since the death of General Franco in 1975. From Monday, the agentes become limited companies. Most of the 51 new brokers and agents operating in Madrid have found powerful new domestic and foreign partners to back them.

Mr Guerrero, at just 36, was one of the last agentes to be licenced. He is a co-founder of Asesores Bursatiles, one of the dozens of small 'shadow' brokerages set up a few years ago by agentes who wanted to prepare themselves for what begins on Monday. He was elected chairman of the Madrid exchange last week and is still a little out of breath.

"The first priority we have is to make sure the market works on Monday," he says. "Although it will basically be the same market, we are going to have a huge plumbing job on our hands because in the place of 82 individual agentes there will be 51 brokers and agents." (Only brokers can trade on their own account).

"We have had to change switchboards, desks on the floor, kiosks, telephones and codes and we have done it all in a month and a half. Its monstrous."

But the Spanish have a *knack for doing things* at the last moment and he is not the only player working hard.

Mr Edward Nicholson, chief of Barclay's Securities in Spain, which has teamed up with a Madrid agente to form a new brokerage, was only told this week how much registration of the new brokerage would cost. They paid the Pta420m ($3.56m) yesterday afternoon, as telephone engineers (amazingly for Spain, after only two weeks notice) were *milling about his offices* laying lines for the markets new computer trading system, Cats. "It's quite impressive, actually," said Mr Nicholson, who last week paid another *Pta80m for membership of the* new company of brokers who will administer the market. "We just hope we don't have any additional costs."

Despite the frantic last-minute race to put the technical elements of the market together, a strange calm has come over brokers in Madrid in the last two weeks. Volumes in the market are down anyway, but their fears of just a few months ago – of commissions wars, of battles to force companies to quote on Cats – seem to have vaporised in the dry Spanish heat.

The reforms, agreed on by Parliament a year ago, have two aims: to make the markets more transparent and to develop them as a badly-needed source of long term capital for Spanish industry.

"We need to develop institutional investment here," says Mr Guerrero. "At the moment more than half the market's business is with individuals." Spanish companies, as they grow more ambitious, are pressing hard. "The Spanish bolsas account for a very small part of the economy. It is an economy that has depended mostly on the banks," he says.

Although foreign investors account for nearly 25 per cent of volumes traded in Spain, analysts believe many stay away for fear of Madrid's poor reputation for transparency and the suspicion that trading is manipulated. The Japanese invest practically nothing.

Luis Carlos Croissier: fighting for Cats system

Mr Guerrero hopes two things will change that. First, trading continuously on computers rather than in 10 minute floor sessions for each sector will make the movement of shares easier to follow. Cats has been a disappointment since it began a few months ago and many brokers complain it is slow and cannot guarantee liquidity as concentrated floor sessions do. "I think a lot of people are genuinely frightened of the technology," says Mr Nicholson. "And until now, without the ability to make markets, you just don't have enough liquidity."

Trading volumes in the companies that have entered *Cats* have been even lower than the rest of the market.

Mr Guerrero concedes the point. "We need to improve it a little," he says. The system was developed by the Toronto stock exchange in the 1970s and, the market's new chairman said, many of its programmes were old.

He has, however, joined forces with Mr Luis Carlos Croissier, the young Canary islander who heads the new market watchdog, the Comision Nacional del Mercado de Valores, to encourage companies to quote on Cats. "We will fight for it," he says. A loophole in the new stock market law means companies cannot be forced to join Cats. But Mr Croissier expects half of the stocks in the market to be on Cats by the end of the year.

His other big headache is to put together a streamlined settlements system that works. "We are worse than some places but we are not starting from a very bad base," he says. "In my experience our settlements system in Spain is comparable to the French or German ones and much better than what the Italians have."

That may not be the best of recommendations and a timetable for establishing a separate company, made up of brokers and financial institutions has not been set. But the four Spanish markets have three months from Monday to connect up with each other electronically, which should be an important first step towards a modern – some brokers in Madrid say revolutionary – settlements system.

Luckily for the brokers, Mr Croissier has at least removed one great danger by deciding to maintain the market's old 0.25 fixed commission for the time being. This will have to be phased out by 1992, when agentes who have teamed up with big Spanish banks may be able to squeeze their smaller former colleagues.

Mr Guerrero, as one of the latter, does not worry, as some people do, that the bank driven brokerages will dominate the market. "Stockbroking is very different to banking," he says, "we will have to see."

On Monday, the Madrid floor will be different but not wildly so. The shouts of traders will still crash around its ornate walls and may continue to do so for a year or more as quoted companies resist pressure to enter the Cats system and trade on a screen.

In Spain, the traditional approach to change is to hunch your shoulders, turn your palms up and mutter *"no pasa nada"* – nothing is happening. It seems to work.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on July 27

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
B.F.C.E. 9¼ 95	150	103⅛	103⅜	+0⅛	+0½	8.49
Brit. Tel. Fin. 9⅛ 98	250	104	104⅜	+0⅛	+0½	8.70
BP America 9¾ 99	250	†104⅞	105⅜	+0⅛	+0⅜	8.94
Canada 9 96	1000	103⅝	104⅛	+0¼	+0½	8.17
Canadian Pac 10¾ 93	100	†102¼	102¾	0	0	9.93
C.C.C.E 9¼ 95	300	103	103½	+0⅛	+0⅛	8.48
C.N.C.A 9⅜ 93	150	102½	103	+0⅛	+0⅝	5.61
Credit National 8¼ 93	200	99⅜	99½	+0⅛	+0½	8.43
Credit National 7⅜ 92	100	97⅜	97⅞	+0⅛	+0⅜	8.36
Credit National 9½ 92	160	102⅝	103⅛	+0⅛	+0¼	8.47
Dai-Ichi Kan 9⅝ 92	150	102½	103	+0⅛	+0⅝	8.57
Denmark 7⅛ 92	500	96⅝	97⅛	0	+0¼	8.46
E.E.C. 7 91	100	97	97½	+0⅛	+0¼	8.30
E.E.C. 7¼ 93	250	96½	97	+0⅛	+0⅛	8.31
E.E.C. 10 93	140	104¼	105⅛	+0⅛	+0¼	8.34
Eurofima 10⅛ 93	100	†105¼	105¾	0	+0¼	8.29
Elec.De France 9 98	200	102½	102⅞	+0⅛	+0½	8.54
Elec. De France 9½ 99	200	104⅞	105¼	-0⅛	-0⅛	8.70
Finland 9 96	250	102⅜	102½	+0⅛	+0⅛	8.52
Finn.Exp.Cd. 8½ 92	200	99⅞	100⅛	+0⅛	+0¼	8.41
Finn. Exp. Cd. 9⅝ 95	200	103⅛	103½	-0⅛	+0½	8.66
Finn. Exp.Cred.10⅛ 91	100	102⅞	103⅛	+0¼	0	8.78
Ford Motor Credit 8 91	250	†98⅞	99⅜	+0⅛	+0⅜	8.54
Gen.Elec.Cap.Corp. 9 93	500	†101⅝	102⅛	+0⅛	+0½	8.40
Gen.Elec.Cap.Crp.10 1/2 91	300	102⅛	103⅛	+0⅛	-0⅛	8.49
G.M A.C. 9 96	500	100⅛	101⅛	+0⅛	+0⅛	8.83
Gen.Mtrs.Corp. 9⅛ 92	200	101⅛	101½	+0⅛	+0½	8.63
IBM Credit Corp. 8⅞ 91	250	101	101⅛	0	0	8.27
IBM Credit Corp. 9 92	250	102⅜	102⅝	+0⅛	+0¼	8.02
IBM Credit Corp. 9½ 92	250	102⅜	102⅞	0	+0¼	8.28
IBM Credit Corp. 10 92	200	103⅞	104¼	-0⅛	+0¼	8.30
Italy 9¼ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.50
Italy 9⅞ 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.68
Japan Dev. Bank 10 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.56
L.T.C.B. of Japan 9¼ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.59
Metropolis Tokyo 9⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.34
Nippon Tel.&Tel. 9⅞ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.64
Norway 8⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.31
Portugal 8⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.96
Prudential Crp. 8⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.52
Sumitomo Bank 9⅞ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.71
Sweden 7 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.26
Sweden 8⅞ 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.43
Sweden 8⅞ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.59
Toyota 9⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.56
Victorian Rep 11⅞ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.63
World Bank 7 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.23
World Bank 9 97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.47
World Bank 9 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.23
World Bank 9⅞ 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.59
World Bank 9⅞ 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.58
World Bank 9¾ 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.49

Average price change... On day +0 on week +0¼

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bk. 6 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.84
Austria 6¼ 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.30
Bank of Tokyo 5⅝ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.62
Commerzbank o/s 5¾ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.65
Credit Foncier 6¾ 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.82
E.I.B. 5½ 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.82
E.I.B. 6 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.83
E.I.B. 6½ 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.70
E.I.B. 6¾ 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.84
E.I.B. 6⅞ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.72
Euro.Coals.Steel 5⅞ 97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.89
Eurofima 6¾ 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.64
Elec De France 5⅞ 97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.67
Forsmark Krtg 5⅝ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.19
Hydro-Quebec 6¾ 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.83
Japan Dev. Bk. 5⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.60
Japan Finance 5⅞ 97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.01
L.K.B. 6⅞ 97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.89
Ireland 6¾ 97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.96
Ireland 7⅛ 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.10
Malaysia 6⅝ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.99
Nat. West Bk. PLC 6 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.97
N.H.L. Finance 6⅛ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.10
Nippon Tel. &Tel. 6 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.27
Oesterr. Kontrb. 5 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.76
Portugal 5¾ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.22
Portugal 6⅞ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.42
Privatbanken 5⅛ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.02
Royal Insurance 5⅞ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.95
Turkey 6½ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.68
Union Bk.Finland 5⅞ 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.68
World Bk. 6¼ 97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.89
World Bank 6½ 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.82

Average price change... On day +0 on week +0¼

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5⅝ 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.01
Asfinag 5 03	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.79
B.F.C.E. 4½ 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.45
B.M.W.Fin Neth. 5 13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.93
Britannia B/S 4¼ 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.04
CIR. Int W/W 3 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.83
Credit Lyonnais 4¾ 00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.96
E.I.B. 4¾ 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.94
Fletcher Chall. 4⅞ 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.12
Kobe City 4⅝ 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.76
Leeds Perm. B/S 4¼ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.09
Malaysia 5¾ 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.49
Maxwell Comm Crp 5 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.08
Nat Bk. Hungary 5⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.53
Nationwide Ang.B/S 4⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.15
Nippon Tele 4⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.48
Oester. Ktbk 5 03	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.89
Prov Newfoundland 5 03	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.78
Thailand 4⅞ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.95
World Bank 5 03	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.88

Average price change... On day +0 on week -0¼

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅛ 91	80	101¼	101½	0	+0⅛	5.16
Canada 5⅝ 93	80	101¼	101½	0	+0¼	5.23
Eurofima 5 1995	20	98⅜	98¾	+0⅛	+0⅜	5.28
E.I.B. 4⅞ 93	30	98⅝	98⅞	+0⅛	+0⅜	5.25
Ireland 5⅛ 93	30	99⅜	99⅞	-0⅛	+0⅜	5.23
Norway 5⅛ 93	50	99½	99¾	+0⅛	+0½	5.20
Sweden 4⅝ 93	50	97¾	98	+0⅛	+0⅜	5.25
World Bank 5⅛ 98	10	98¼	98¾	+0⅛	+0½	5.34
World Bank 7 94	20	106⅞	107⅛	+0⅛	+0⅛	5.26

Average price change... On day +0 on week +0¼

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 11⅝ 95 £	100	99¼	99¾	0	+0¾	11.71
Aegon 7¾ 92 FL	100	101⅞	102⅛	+0⅛	+0⅛	7.73
Alg. Bk. Ned. 5¾ 93 FL	200	95⅛	95⅜	0	+0⅛	7.19
Austria 7½ 94 ECU	100	96⅜	96⅞	+0⅛	+0½	8.39
Bk.Nova Scot 14⅜ 90 AS	75	95⅜	96⅜	+0⅛	0	17.91
Barclays Aus.13½ 91 A$	100	95½	96	+0⅛	+0¼	15.82
Belgium 8⅛ 94 Ecu	150	98	98½	0	+0⅛	8.58
BP Capital 9¾ 93 £	100	94⅜	94⅞	+0¼	+0⅜	11.58
British Airways 10 98 £	100	93⅜	99	+0¼	+0¼	11.17
Bulwmann-Tet. 6⅜ 93 FL	100	95¼	96⅛	0	0	7.62
Comm. Bk.Aust. 12⅝ 93AS	100	†93¼	93⅞	-0⅜	-0⅜	14.88
CrLocalFrance 9¼ 92Ecu	100	102⅜	102⅝	+0⅛	+0¼	8.27
Deut.Bk.Aus. 13⅜ 93 A$	125	97¼	97⅛	+0¼	+0½	14.12
Deutsche Bk.Fin. 15 94 AS	100	102¼	102⅝	+0¼	+0½	14.22
Eastman Kodak 13 90 A$	100	95⅜	95⅛	-0⅛	-0⅛	17.87
E.I.B. 7 96 LFr	100	†96⅝	97⅜	+0⅛	+0⅛	7.56
E.I.B. 9 99 Ecu	150	102⅛	102½	+0⅛	+0½	8.64
Eurofima 7⅛ 94 Ecu	100	96⅞	97⅛	+0⅛	+0¼	8.40
Export Dv.Crp.8⅛ 92Ecu	100	100⅛	100⅞	+0⅛	+0⅛	8.46
Fed.Bus.Dv.Bk.9¾ 92 CS	75	†99¼	99⅛	+0⅛	-0⅛	9.99
Fed.Bus.De.Bk.10½ 93CS	50	101⅛	101⅝	+0⅛	+0¼	10.05
Ferrv. Stato 7⅛ 93 Ecu	100	96⅞	97⅛	+0⅛	+0¼	8.65
Ford Cr.Can.10¾ 93 CS	100	†100⅞	101⅛	-0⅛	-0⅛	10.31
Ford Cred.Can.10⅞ 96CS	125	103¼	103⅛	+0¼	+0¼	10.10
Ford Cred.Fund.10⅛ 93£	60	96⅛	97¼	+0¼	+0½	11.64
Ford Mtr.Cred.7⅞ 93Ecu	100	96⅞	97⅛	+0⅛	+0¼	8.83
G.M.A.C.Canada 11 3/4 94C$	100	104⅞	105⅛	+0¼	+0¼	10.30
Heineken 7⅝ 94 FL	150	102⅜	103	0	+0⅛	7.56
Hydro-Quebec 11 99 C$	400	104½	104¾	-0⅛	-0⅛	10.20
Lloyds Bank 10⅛ 98 £	150	93½	99	+0¼	+0⅞	11.40
Lloyds Bank 11⅛ 98 £	100	97	97⅛	+0¼	+0⅞	11.87
Montreal Tst. 10¾ 93 C$	100	†101	101½	+0½	+0¼	10.34
Morgan Guar.7st. 11 91 C$	150	†100½	101	0	+0¼	10.31
Nat. Aus Bk. 14¾ 94AS	100	99	99⅝	-0⅜	0	14.95
New Zealand 9⅞ 93 £	100	93⅛	93¾	+0⅛	+0½	11.70
Philips Gleoil. 6 93 FL	300	97¼	97½	+0⅛	+0⅛	6.80
Privatbanken 7½ 94 LFr	500	†98¼	99¼	+0⅜	+0⅛	7.81
Royal Bk Scot.10⅛ 98 £	125	95⅝	96⅛	+0¼	+0⅞	11.43
Saskatchewan 9⅞ 91 C$	150	†99¼	99⅝	+0⅛	-0⅛	10.16
Saskatchewan 10¼ 93 C$	200	100⅛	100¾	0	-0¼	10.07
State Bk.NSW. 13⅞ 93A$	100	96½	97⅛	0	+0¼	14.83
Sweden 15 94 A$	100	102⅝	103⅛	-0⅛	+0¼	14.05
Toyota Mtr.Cr.11⅛ 92C$	150	102½	103⅛	0	-0⅛	10.18
World Bank 13⅛ 92 A$	100	99	99½	0	-0⅜	13.69
Zentrspk. 13¼ 93 A$	75	†96¼	96⅛	-0⅛	-0⅛	14.38

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic.Bld 94 £	.08	99.95	100.00	24/10	14.08
Bank of Greece 99 US	0¼	99.70	99.80	8/09	10.62
Belgium 91 US	0	100.19	100.29	19/08	9.38
Chelt.& Gloucester 99 £	.063	99.91	99.96	30/08	14.06
Credit Foncier 98 US	.063	100.21	100.31	20/10	10.16
Dresdner Finance 99 DM	.031	99.92	100.02	27/07	6.59
EEC 3 92 DM	0	100.54	100.64	22/08	5.63
Halifax BS 94 £	.1	100.07	100.12	9/08	12.97
Invt. in Industry 99 £	0¼	100.10	100.20	24/08	14.06
Leeds Perm. B/S 94 £	0⅛	100.16	100.21	13/10	14.06
Midland Bank 01 £	.1	98.40	98.73	15/08	12.97
Milk Mkt.Brd 5 93 £	0⅛	100.03	100.08	29/09	14.31
New Zealand 5 97 £	.07	100.00	100.10	22/08	13.19
State Bk. Nsw. 98 US	.188	100.40	100.50	14/08	9.87
Woolwich Equit. BS. 93 £	0⅛	100.22	100.27	13/10	14.06
Woolwich 5 95 £	0⅛	100.03	100.08	22/08	13¼

Average price change... On day +0.01 on week +0.00

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US	8/87	62.	117¼	118⅛	+1½	7.64
Amer. Brands 7¼ 02 US	9/87	56.7	134⅜	135½	+5¼	-0.76
CBS Inc. 5 02 US	4/87	200	110⅛	111⅝	+2⅛	1.60
Primerica 5½ 02 US	14/87	66.75	70¼	71¼	+0½	82.48
Eng China Clay 6½ 03 £	9/88	4.8	104⅛	105⅛	+0½	6.72
Fujitsu 3 99 US	5/84	1106.	233	234	+2⅜	-1.63
Ladbroke 5⅜ 04 £	6/89	7.1	100⅞	101¼	+0¼	131.90
Land Secs 6¼ 02 £	6/87	6.72	98½	99½	+0¼	12.76
Minolta Camera 2¼ 94DM	2/86	1004	108⅞	110½	+0¼	10.16
MCA Inc 5½ 02 US	9/87	69.62	106	107	+3⅛	10.67
Mitsubishi Bk 3½ 04US	5/89	3266.	99⅛	100½	+1¼	0.97
Next Plc 5¼ 03 £	11/87	4.3	101¼	102½	+0¼	205.99
Nishi Nipp Bk 2⅞ 03 US	4/88	804.	115¼	116¼	0	-1.00
Omron Tateisi 2⅛ 02 US	4/87	1310.	262	263	0	-0.96
Ranks Hovis 4⅛ 03 £	11/88	3.5	127	128	+1	-2.35
Redland 7¼ 02 £	1/87	5.4	111¼	112¼	-0½	2.11
Saatchi&Stchi 6¾ 03 £	110/89	4.41	94¼	95¼	+0¼	33.50
Silicon Graphics 8 04 US	6/89	23.18	93⅛	94⅜	-0¼	24.01
Sumitomo Bank 3⅛ 04US	2/89	4296.	90¼	91⅜	+1½	15.02
Texas Inst. 2¾ 02 US	9/87	82.87	75¼	76¼	0	62.03
Utd Newspapers 8 04 £	10/89	8.77	100¼	101¼	+0½	94.94
W R Grace 6¼ 02 US	9/87	42.12	94⅛	95⅛	+1½	19.30

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡three-month, §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Cng. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Eagle Star ratings to be retained

By Norma Cohen

THE TWO leading credit rating agencies are no longer considering a downgrade of nine issues of mortgage-backed securities guaranteed by Eagle Star Insurance Company because alternative insurance arrangements have been made.

One of the two ratings agencies, Moody's Investors Service, said it is raising the credit rating on several of the issues to AA-1 from AA-2 as a result of the enhanced insurance cover.

Special Risk Services, an insurance broker which arranged the insurance cover for the securities upon issuance, said that a credit enhancement facility through Trade Indemnity Group had been arranged which includes extensive reinsurance support. Eagle Star itself has absorbed the cost of arranging the new insurance cover.

Standard and Poor's and Moody's Investors' Service had said they were reviewing the AA claims-paying rating of Eagle Star following a hostile £13bn ($21.3bn) bid for its parent company, BAT Industries by Hoylake Investments. Because the various mortgage-backed securities carried a AA credit rating by virtue of an insurance policy provided by Eagle Star, they too were affected by the ratings review.

Asset-backed securities issued in the Euromarkets in many cases carry a pool insurance policy from a private insurance company which provides a top-quality credit rating.

An alternative method of obtaining a top-flight insurance policy requires overcollateralising the securities and selling a subordinated tranche of debt the proceeds of which would be used to pay investors in the senior tranche should some of the assets in the pool default. This structure predominates in the US asset-backed securities market.

INTERNATIONAL CAPITAL MARKETS

Gefco £250m issue makes dramatic market debut

By Andrew Freeman

AN ISSUE worth £250m for Guaranteed Export Finance Corporation (Gefco) – a financing vehicle created to hold UK export credits – dramatically entered the sterling bond markets yesterday as the first such issue in sterling to carry an explicit UK government guarantee.

INTERNATIONAL BONDS

The issue was designed to move loans from the balance sheet of the Export Credits Guarantee Department, under the department's plans to securitise some of its portfolio, and to offer the issue to private sector investors. In February 1987, Gefco issued a government-guaranteed $150m deal to refinance export credit loans.

The deal traded strongly, as yield spreads of Euro-sterling bonds moved sharply in relation to their UK government benchmarks.

The deal's success was mainly due to its perceived quality as fixed-income investors have become nervous about corporate bond holdings following the leveraged £13bn bid for BAT Industries.

Amid tetchy debate among syndicate managers as to whether the deal was domestic or international, traders and investors nevertheless claimed that a new class of bonds had been created which would trade between government and supranational issues.

The loan stock, which will mature on 7 January 2010, was placed mostly with UK institutions which were hungry for the paper's launch yield of 40 basis points over the 9 per cent gilt-edged stock maturing in 2008. The joint lead managers were Barclays de Zoete Wedd and SG Warburg.

Dealers said that the impact of the deal was immediate. Early grey market indications were that the stock would open at a premium of around ¾ point when the price was fixed in the afternoon. A rush of buying then saw the premium jump as high as ¾ point, which represented a sharp narrowing of the launch spread to around 33 basis points over the gilt.

Dealers said that the Gefco deal had focused investors' attention on credit quality. Sovereign and supranational sterling issues, particularly at the longer end of the maturity curve, were in strong demand. Issues by the World Bank and the European Investment Bank, for example, tightened in spread terms by as much as 5 basis points, or a 1¼ point gain in price terms.

Elsewhere, Eurobond markets had an active day, with new issues in abundance. Two Euro-sterling deals for US-based borrowers were trading at discounts equivalent to full underwriting commissions.

Bankers Trust was the lead manager of a successful 10-year Ecu125m deal for Eurofima. Amid strong demand from institutions, the bonds were quoted inside fees at less 1.80 bid.

The Canadian dollar sector was also tapped with a C$150m five-year deal for Eksportfinans which was brought by IBJ International. The bonds carried a 10⅛ per cent coupon and were priced at 101⅞ to yield 62 basis points over Treasuries. They were quoted by IBJ at less 1.80 bid, just inside total underwriting fees.

Credit Lyonnais brought a swap-related FFr500m seven-year deal for Deutsche Girozentrale with an 8⅝ per cent coupon and a launch spread against French government bonds of around 48 basis points. The paper was trading at less 1⅝ bid, inside full fees of 1⅞ per cent.

In Switzerland yesterday, a Japanese equity warrant deal for Yuasa Funashoku was offered with a fixed coupon of 3 per cent, the highest coupon seen for some time.

P&O steps up Tokyo issue to $175m

THE FIRST issue of foreign currency convertible bonds in Tokyo – a dollar-denominated deal for P&O, the UK shipping and property group – has been increased in size from the originally planned $150m to $175m, Reuter reports from Tokyo.

The so-called shogun convertible bond – with a maturity of 14¾ years – carries an annual coupon of 6 per cent and will be priced at par.

Conversion price was set at 775p, compared with the closing share price of 687p in London on Wednesday, a 12.8 per cent conversion premium. The sterling exchange rate was set at $1.6457. Conversion period is November 3, 1989 to April 28, 2004.

Salomon sees rise in US bond 'event risk'

SALOMON BROTHERS said US corporate bond "event risk" – the threat of sudden credit quality erosion arising from restructurings – is likely to increase in the next six months, Reuters reports.

In a special report, Salomon said event risk activity would accelerate over that period given the forecast for lower interest rates. It said the "prospects for positive economic growth associated with a soft landing, an abundance of equity funds and lower overall interest rates suggest that the pace of restructuring activity will not abate."

Salomon said the relative price level of the stock market still represented a substantial discount to private-market valuations. It said this and the abundance of equity funds available for investment meant there were more leveraged restructuring opportunities. Restructurings include mergers, acquisitions, leveraged buy-outs, stock repurchases and leveraged buy-outs.

Taking a broader view, Salomon said "overall credit quality is once again expected to be sustained as America continues to operate at peak cyclical levels of profitability."

UK takes shine to covered warrants

By Katharine Campbell

GENERATING enthusiasm among UK investors for equity derivative products has always been something of a daunting task. The London Traded Options Market knows that, and freely admits its performance during its 11-year existence has been a disappointment.

Now after just two months an equity derivative new to the UK market is even attracting interest from UK retail investors – a hitherto unrewarding market for equity derivatives. The ninth covered warrant on UK shares, for British Airport Authorities, was issued yesterday by Salomon, bringing the firm's tally to four. Bankers Trust, which has brought the other five, predicts a total of 50 such deals by the end of the year.

While these issues have been small in size – typically between £25m and £50m apiece – their apparent success demonstrates a significant interest in an instrument that effectively represents a long-dated option.

Buyers of covered warrants in the more established Swiss market – where much of the business consists of repackaging existing Japanese equity warrants – have been an obvious target for the UK variety too, but new buyers have also been located. Quentin Burrows at NatWest Stockbrokers says that his more sophisticated retail clients have been buying warrants and trading options around them. However, the current structure does not satisfy everybody.

First, credit considerations have put off at least a few fund managers. The deals fall short of the textbook definition of a covered warrant, where the warrant issuer is assumed to hold an equivalent number of shares.

These recent deals are actually naked warrants hedged by the issuing house using a variety of instruments such as traded options as well as the shares. In the end, investors are buying the risk of Bankers Trust International, or of Salomon's.

Another bone of contention is pricing levels. One UK house says it would only begin issuing covered warrants when the implied volatilities are more nearly equivalent to those on the traded options. Currently the warrants are between 3 and 5 per cent more expensive, although short-term volatilities are themselves quite high at present.

But Salomon for instance, argues that these short-term volatilities are an inappropriate yardstick. All its issues, it says, have been for a three year maturity – in contrast to BTI issues, which mature after eighteen months. The longer maturity by definition entails greater risk, which in addition cannot so easily be hedged in the short-term options market, the firm argues.

Also, some investors have noted an inbuilt inflexibility in that they cannot run a short position for long, owing to the obligation to deliver the warrants within seven days via the Euroclear system.

Moreover, because the issues are small, liquidity is patchy, and secondary market positions more transparent to the issuer. Here Bankers Trust counters that its prices are firm for 100,000 shares, which it hints is generally rather better than on the floor of the options exchange.

Another potential problem is that it is not always clear exactly how many warrants have been issued. One sceptic argues that the recent flurry has had more to do with the necessity of issuing houses broadening their portfolios and hence diversifying their own risk than with customer demand.

Salomon's BAA deal reportedly fell short of its target of 5m shares yesterday, which may point to a temporary glut in the market.

But it would be quite wrong to dismiss the importance of this new market. Mr Quintin Price at James Capel interprets the move more generally as indicative of the increasing sophistication of equity markets, which, like the bond markets before them, will become "more quantitive."

The interest generated by this nascent market has set LTOM thinking. The exchange will shortly be sounding out Bankers Trust about the possibility of trading covered warrants on the floor of the exchange.

It is far from clear whether the issuing houses would favour such a move, and some officials are privately sceptical whether this would enhance liquidity.

Treasuries respond warmly to GNP data

By Janet Bush in New York and Katharine Campbell in London

US TREASURY bonds continued to improve yesterday in a positive reaction to second-quarter GNP figures which underlined the deceleration in the economy this year and to a persistent softness in the Fed Funds rate which confirmed an easing in policy.

GOVERNMENT BONDS

At mid-session, the Treasury's benchmark long bond was quoted just under ¾ point higher for a yield of 8.07 per cent. Fed Funds were quoted at 9 per cent, regarded as the bottom end of a new target range of 9 per cent to 9¼ per cent.

The Fed arranged four-day matched sales to drain liquidity of the market, consistent with the new, lower range.

Yesterday's GNP figures were taken positively by the market. GNP rose by 1.7 per cent in the second quarter, slightly below forecasts of a 2 per cent gain. In addition, first-quarter GNP was revised to a gain of 3.7 per cent from 4.4 per cent reported previously.

■ THE UK bond market retained its optimistic tone yesterday, although prices closed off the highs achieved during the morning. The Treasury 2003-07 ended 1/32 of a point firmer at 115-14.

The buoyant mood was largely sustained by sterling's strength, as the currency breached the DM3.10 level, and ended, at 93.4, another 0.4 point stronger on the trade-weighted index. This encouraged further interest from foreign buyers, although domestic institutions remain in the shadows.

A £250m government-backed deal for the Guaranteed Export Finance Corp in the domestic market did not take the edge off the advance in gilt-edged securities, traders said.

■ NEW ISSUES in several other bond markets were announced yesterday. In Switzerland the National Bank announced a tender for around SFr250m of eight-year paper, redeemable by the Government after six years, with a 5¼ per cent coupon.

Meanwhile the Swedish authorities took advantage of the recent lifting of exchange controls to solicit bids for up to SKr2bn worth of bonds due 2000 with an 11 per cent coupon.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	107-06	+8/32	10.74	10.91	11.26
		9.750	1/98	98-09	+15/32	10.05	10.20	10.52
		9.000	10/08	98-02	+12/32	9.21	9.28	9.51
US TREASURY *		8.125	5/99	107-27	+14/32	7.95	8.01	8.12
		8.875	2/19	108-30	+14/32	8.08	8.11	8.10
JAPAN	No 111	4.600	6/98	98.7317	-0.117	5.14	5.23	5.36
	No 2	5.700	3/07	105.7643	-	4.88	5.01	5.14
GERMANY		7.000	2/99	102.4000	-	6.64	6.64	6.73
FRANCE	BTAN	8.000	1/94	97.5382	+0.037	8.66	8.74	8.91
	OAT	8.125	5/99	97.8700	+0.070	8.44	8.51	8.63
CANADA *		10.250	12/98	106.7750	+0.062	8.31	8.29	9.36
NETHERLANDS		7.000	3/99	99.7500	+0.090	7.03	7.06	7.13
AUSTRALIA		12.000	7/99	93.0743	+0.062	13.27	13.47	13.54

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Kubota Ltd.♦	300	(4¼)	100	1993	2¼/1½	Nomura Int.
Sankyo Aluminium♦	100	(4¾)	100	1993	2¼/1½	Daiwa Europe
JDC Corp.♦	100	(4¼)	100	1993	2¼/1½	Nikko Secs. (Europe)
Tsumura and Co.♦*	100	(4¾)	100	1993	2¼/1½	Nikko Secs. (Europe)
STERLING						
Gefco♦	250	9¾	99.709	2010	n/a	BZW/S.G. Warburg Secs.
Student Loan M'gage Ass.(a)♦	100	11	101.70	1994	1⅞/1¼	Samuel Montagu
Mellife Funding Inc.(a)♦	120	11⅝	101⅛	1992	1⅛/⅜	CSFB
CANADIAN DOLLARS						
Eksportfinans A/S(a)♦	150	10⅛	101⅞	1994	1⅞/1¼	IBJ Int.
FRENCH FRANCS						
Deutsche Giroz.-D'sche K(a)♦	500	8⅝	101½	1996	1⅞/1¼	Credit Lyonnais
ECUs						
Eurofima(a)♦	125	8⅛	101½	1999	2/1⅜	Bankers Trust Int.
D-MARKS						
Tsumura and Co.(b)♦	100	(1⅞)	100	1994	2¼/1½	DG Bank
AUSTRALIAN DOLLARS						
Dresdner Bank Berlin(a)♦	40	15	102	1993	1⅜/1¼	Dresdner Bk (Luxembourg)
SWISS FRANCS						
Nippol Toyama Corp.(c)♦	50	(¾)	100	1993	1⅞	Yamaichi Bank (Switz)
Tsubakimoto Mach.& Eng(d)♦	80	(¾)	100	1993	1⅞	Nomura Bank (Switz)
Yuasa Funashoku Co.(e)♦	30	Zero	100	1993	1⅞	B.della Svtz. Italiana
Yuasa Funashoku Co.♦	40	3	100	1994	1⅞	B.della Svtz. Italiana

♦Private placement. *With equity warrants. §Convertible. ♦Final terms. a) Non-callable. b) Each DM5,000 bond has A & B warrants. 'A' exercisable for 3 years, 'B' for 5 years. c) Yield to put 4.155%. d) Indicated yield to put 4.094%. e) Yield to put 3.863%.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section

	Thursday July 27 1989 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Wed Jul 26 Index No.	Tue Jul 25 Index No.	Mon Jul 24 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (206)	[illegible]									
2 Building Materials (29)	[illegible]									
3 Contracting, Construction (37)	[illegible]									
4 Electricals (9)	[illegible]									
5 Electronics (30)	[illegible]									
6 Mechanical Engineering (55)	[illegible]									
8 Metals and Metal Forming (6)	[illegible]									
9 Motors (17)	[illegible]									
10 Other Industrial Materials (23)	[illegible]									
21 CONSUMER GROUP (186)	[illegible]									
22 Brewers and Distillers (22)	[illegible]									
25 Food Manufacturing (20)	[illegible]									
26 Food Retailing (14)	[illegible]									
27 Health and Household (14)	[illegible]									
29 Leisure (33)	[illegible]									
31 Packaging & Paper (15)	[illegible]									
32 Publishing & Printing (19)	[illegible]									
34 Stores (34)	[illegible]									
35 Textiles (15)	[illegible]									
40 OTHER GROUPS (94)	[illegible]									
41 Agencies (17)	[illegible]									
42 Chemicals (23)	[illegible]									
43 Conglomerates (13)	[illegible]									
45 Transport (13)	[illegible]									
47 Telephone Networks (2)	[illegible]									
48 Miscellaneous (26)	[illegible]									
49 INDUSTRIAL GROUP (486)	[illegible]									
51 Oil & Gas (14)	[illegible]									
59 500 SHARE INDEX (500)	[illegible]									
61 FINANCIAL GROUP (124)	[illegible]									
62 Banks (9)	[illegible]									
65 Insurance (Life) (8)	[illegible]									
66 Insurance (Composite) (7)	[illegible]									
67 Insurance (Brokers) (7)	[illegible]									
68 Merchant Banks (10)	[illegible]									
69 Property (52)	[illegible]									
70 Other Financial (31)	[illegible]									
71 Investment Trusts (69)	[illegible]									
81 Mining Finance (2)	[illegible]									
91 Overseas Traders (8)	[illegible]									
99 ALL-SHARE INDEX (703)	[illegible]									

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jul 26	Jul 25	Jul 24	Jul 21	Jul 20	Year ago
FT-SE 100 SHARE INDEX♦	[illegible]									

FIXED INTEREST

	PRICE INDICES	Thu Jul 27	Day's change %	Wed Jul 26	xd adj. today	xd adj. 1989 to date
	British Government					
1	5 years	118.50	+0.38	118.15	-	7.13
2	5-15 years	134.33	+0.48	133.68	-	8.12
3	Over 15 years	147.55	+0.49	146.82	-	7.09
4	Irredeemables	168.16	+0.55	167.23	-	7.32
5	All stocks	132.09	+0.42	131.53	-	7.78
	Index-Linked					
6	5 years	140.54	+0.20	140.26	-	1.36
7	Over 5 years	138.38	+0.27	138.01	-	2.33
8	All stocks	138.43	+0.27	138.06	-	2.24
9	Debentures & Loans	113.39		113.38	-	6.16
10	Preference	88.29		88.29	-	3.50

	AVERAGE GROSS REDEMPTION YIELDS		Thu Jul 27	Wed Jul 26	Year ago (approx.)
	British Government				
1	Low Coupons	5 years	9.71	9.74	9.50
2		15 years	9.11	9.20	9.40
3		25 years	9.04	9.09	9.17
4	Medium Coupons	5 years	10.34	10.46	9.94
5		15 years	9.54	9.59	9.63
6		25 years	9.20	9.24	9.40
7	High Coupons	5 years	10.46	10.60	10.05
8		15 years	9.77	9.82	9.78
9		25 years	9.40	9.43	9.43
10	Irredeemables		9.13	9.18	9.61
	Index-Linked				
11	Inflation rate 5%	5yrs.	3.01	3.06	2.84
12	Inflation rate 5%	Over 5 yrs.	3.51	3.53	3.83
13	Inflation rate 10%	5yrs.	2.21	2.26	1.79
14	Inflation rate 10%	Over 5 yrs.	3.34	3.36	3.66
15	Debs & Loans	5 years	12.41	12.41	10.89
16		15 years	11.85	11.85	10.85
17		25 years	11.33	11.33	10.85
18	Preference		10.26	10.26	9.68

♦Opening index 2276.5; 10 am 2279.4; 11 am 2282.2; Noon 2280.0; 1 pm 2280.2; 2 pm 2283.7; 3 pm 2287.4; 3.30 pm 2284.4; 4 pm 2282.1
(a) 2.56pm (b) 9.25am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.
CONSTITUENT CHANGES: Beecham (27) and Guinness Mahon (68) have been deleted. SmithKline Beecham (27) has been inserted.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	97	3	6
Corporations, Dominion and Foreign Bonds	13	1	31
Industrials	453	265	882
Financial and Properties	216	104	345
Oils	25	27	41
Plantations	0	1	10
Mines	43	42	90
Others	67	93	97
Totals	914	535	1,502

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renun. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -
10	Nil	-	2½pm	1pm	EMarine Petroleum 10p	1½pm	
35	Nil	25/8	10pm	3pm	Pacific Group	4pm	
35	Nil	-	10pm	3pm	Do. (Existing Offer)	4pm	
325	Nil	-	30pm	23pm	Pepe 10p	25pm	
7	Nil	23/8	1pm	½pm	Redime 5p	½pm	
130	Nil	23/8	19pm	10pm	Sterling Inds. 2½p	10pm	
50	Nil	31/7	4pm	1pm	Whittington 5p	1pm	
100	Nil	-	18pm	15pm	Wyko Group 10p	18pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on Prospectus or other official estimates for 1989. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♦ Issued by tender. ♦ Offered to holders of ordinary shares as a "rights". † Introduction. ‡ Placing price. †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ♦ Unlisted securities market. ♦ Official London listing. □ Including warrants entitlement. * Third Market.

TRADITIONAL OPTIONS

● First Dealings Jul 24
● Last Dealings Aug 4
● Last Declarations Oct 26
● For settlement Nov 65

For rate indications see end of London Share Service

Calls in Lowndes Q'Way, Butte, Richmond Oil & Gas, Ennex, Vickers, TR Energy, ZCI, Amber Day, Navicta, Atlantic Res, Lloyds Chem, Polly Peck, Bridgend, Coscalt, Norfolk Cap, ASDA, McCarthy & Sons.

LONDON TRADED OPTIONS

BRITISH STEEL was the most heavily traded of the individual stocks on the London Traded Options Market yesterday, attracting 4,400 contracts, as the underlying share price of the stock rose 2p to 77p. Business in Steel was split between 4,380 calls and no more than 20 puts. Far and away the most heavily traded individual series in it was the October 80 call, which saw 3,449 contracts, but the October 80 calls were also active, on 536 contracts, end there were 280 contracts in the October 80 calls.

The FT-SE 100 Index picked up 19.2 points to 2,283.7, and found options trading of 6,479 contracts, consisting of 3,890 calls and 2,589 puts, as it approached its July options expiry date on Monday. Over 1,800 contracts were handled in the July 2,300 calls.

Overall options business saw the moderately high level by recent standards of 46,313 contracts, a total, however, hardly making it a market hay-day. There were 35,238 call contracts traded overall, and 11,075 put. The overall analysis of yesterday's options trading continued to be coloured by the transition to a new trade registration system.

British Gas offered British Steel something of a chase, to total 3,610 contracts, comprised of 3,252 calls and 358 puts, though the underlying price of its share was barely changed, up 1p to 201p. A striking feature in it was the trading of 2,873 contracts in the September 200 calls.

Hanson found 3,082 contracts, consisting of 3,059 calls and 23 puts, and a gain of 2p to 222p in the underlying share price. There was business in the August and February 200 calls, the one of 1,508 contracts and the other of 1,260, though these stood out somewhat blankly in terms of change in open position in the stock options, on the early count.

Only two other stocks attracted more than 2,000 contracts in options trading. GEC saw 2,439, and an unchanged underlying share price of 267p. There were dealings of 2,433 on the call side of the stock, and of only 6 on the put. The August 220 calls attracted 1,205 contracts, and the November 260s 512. British Petroleum attracted 2,275 contracts, 363 calls and 1,912 puts, and closed unchanged on balance on the underlying market, at 301p.

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Allied Lyons (*511)	500	42	55	65	15	23	25
	550	18	30	40	42	49	52
Brit. Airways	180	34	38	45	1½	3	5
Trafalgar (*366)	347	37	43	-	6	15	-
	360	-	-	42	-	-	21
	377	20	23	-	20	27	-

Option		Calls Sep	Calls Nov	Calls Jan	Puts Sep	Puts Nov	Puts Jan
ASDA Grp. (*191)	180	23	29	33	9	12	14
	200	12	18	23	20	20	24

UK COMPANY NEWS

£58m security expansion by ASH

By Andrew Hill

AUTOMATED SECURITY (Holdings), which owns Modern Alarms, yesterday spent more than £58m in cash and shares to buy Lander Alarms and 75 per cent of Group 4 Alarms.

The move increases the number of ASH security systems in the UK by nearly 50 per cent to 178,000 and makes the company the second largest operator of alarm systems in the world after ADT, Mr Michael Ashcroft's Bermuda-registered industrial services group.

The deals will be funded by a one-for-three rights issue to raise £72.9m. About 32.6m new ordinary shares are to be issued at 230p each, compared with yesterday's closing price of 270p, down 13p.

ASH is buying Lander from RMC Group, the concrete and aggregates company, for about £46m in cash.

Mr Tom Buffett, ASH's chairman and chief executive, said yesterday: "This is the first time one has been able to buy a large chunk of alarm systems as an asset purchase rather than as a company, which has considerable tax advantages."

ASH is also paying about £7.4m in cash and 1.83m ASH shares for 75 per cent of Group 4 Alarms. The business is part of Group 4 Securitas (International) which will retain 25 per cent and operate it as a joint venture with ASH.

It is ASH's second major acquisition announcement within a month. At the end of June the group bought API Alarm Systems, a Californian central station alarm business, for $105m in cash. The proceeds of the rights issue will also be used to re-finance borrowings incurred in that and other deals, which have pushed ASH's gearing up to about 100 per cent.

ASH also announced yesterday a 23 per cent increase in pre-tax profits – from £7.12m to £8.75m – in the six months to May 31. Turnover rose from £34.6m to £41.9m and earnings per share were up to 7.7p (6.6p).

The group declared an interim dividend of 1.5p and said the 56 per cent increase on last year's dividend of 0.96p would be repeated for the final dividend.

Mr Buffett said yesterday that although ASH's main strategy was directed towards Europe and the US, the UK acquisitions would help strengthen ASH's home base by increasing the density of systems. He added that the total number of central monitoring stations operated by the enlarged group would be reduced from 13 to four, with consequent savings.

Lander has total rental and maintenance income of about £8.5m annually and made £600,000 from turnover of £17.6m in 1988. It had net assets of £7.8m.

Group 4 Alarms' annual income is about £5.8m and the business had net assets of about £4m at June 30.

Under the terms of the rights issue, ASH ordinary shareholders will be offered one new ordinary share for every three held. Other stockholders will be offered 10 ordinary shares for every 51 of the 5 per cent preference shares, or oneordinary share for every eight of the 6 per cent preference shares, or five ordinary shares for every £9 nominal of the convertible loan stock.

Morgan Crucible makes £32m-worth of US and UK buys

By John Ridding

MORGAN CRUCIBLE, the industrial materials and electronics company, yesterday announced a string of acquisitions of US and UK high technology companies for a total maximum consideration of about £31.5m.

The total initial consideration, which amounts to about £28.4m, will be financed by an open offer for 11.68m new ordinary shares priced at 265p each. Yesterday the shares closed down 1p at 282p.

The acquired companies comprise the piezo-electric ceramics businesses of Vernitron for £12.2m; Alberox, which specialises in the application of metallised coatings to ceramics, for an initial consideration of £4.8m; Aamcor, manufacturer of special floor coatings for £7.3m; and two other small companies for a total of £4.1m.

Morgan Crucible said that the acquisitions "fit extremely well with Morgan's existing activities".

It said that the acquisition of the Vernitron businesses "substantially achieved its objective" of strengthening its technical ceramics operations in the US, particularly in piezo-ceramics.

Piezo-ceramics generate electricity if subjected to mechanical impulse and expand and contract in a varying magnetic field. Applications range from Sonar to video equipment.

Together with Unilator, Morgan's existing piezo-ceramics business, the companies will have combined 1988 sales of £10.5m. According to Morgan this will make it one of the major international piezo-ceramics groups.

In the year to the end of December 1988 the Vernitron businesses reported pre-tax profits of £1.8m on sales of £7.9m. For the same period, Alberox achieved pre-tax profits of £200,000 on sales of £5.6m and Aamcor had pre-tax profits of £1.1m on turnover of £6.8m.

Under the terms of the share issue, existing shareholders will be able to apply for any number of new shares up to a maximum of one new share for every 11.57 ordinary shares held and for every 31.81 convertible preference shares held.

Jacques Vert bucks trend with £6.43m

By Alice Rawsthorn

JACQUES VERT, the USM-quoted women's wear group, saw its shares rise by 12p to 362p yesterday when it announced a 60 per cent rise in pre-tax profits to £6.43m for the 15 months to April 30, compared with the previous year.

In recent months a number of clothing companies have announced poor results due to the uncomfortable combination of increasing imports and sluggish consumer spending.

Mr Alan Green, joint chairman, said so far Vert has emerged unscathed from the tough trading environment. He attributed this to the composition of its customer base which is concentrated among affluent over-25 year olds.

The company's sales rose to £45.21m (£23.98m) and gross profits to £19.11m (£9.21m) during the 15 months. It incurred higher costs due to its investment in the new Alain Cannelle leisurewear collection and in recruiting new staff. Overheads rose to £12.55m (£5.25m) thereby depressing margins.

The wholesale business benefited from strong sales to established customers in the UK and boosted turnover to £31.61m (£18.56m). Mr Green said that the level of orders for the autumn had reached record levels, despite the general slowdown in consumer spending.

The retail division increased sales to £5.77m (£2.6m). Vert now has 18 shops in the UK and envisages slow, steady expansion in the future. Mr Green said the growth in sales from the shops had slowed down in recent months, but had not fallen below last year's levels.

Export sales rose to £6.8m (£2.49m). The US operation made a small loss during the 15 months, but Vert has now completed the reorganisation of this business since buying out its old US distributor.

Mr Green expected it to make a modest profit this year.

Collections, the costume jewellery business, made a loss on sales of £1.02m. The business was profitable when Vert bought it 18 months ago, but the costume jewellery market has since become much more competitive.

Mr Green said the business was too small to affect the group as a whole and described its problems as a "pinprick, rather than a pain". Collections is not expected to return to profit this year.

● COMMENT

At a time when so many clothing companies are struggling to maintain output and profitability in intensely competitive conditions, Jacques Vert has demonstrated remarkable resilience. The investment in the new collection and in expanding the management team took a toll on margins last year. But the bulk of the expenditure has been completed and the company should at least maintain margins this year. The healthy state of autumn orders augurs well, although the slowdown in retail sales suggests that its comfortably-off customers are not entirely immune to increased interest rates. The costume jewellery company is still in trouble; but the US should contribute from now onwards. The City is expecting pre-tax profits of £5.8m for the full year leaving the shares to move with the market on a prospective p/e of 9.

St Andrew Trust raises NAV by 22.3%

In the half-year to June 30 1989 St Andrew Trust increased its net asset value per share by 22.3 per cent from 214.7p to 262.6p.

The trust pointed out that in the 12 months to end-June St Andrew was the best performing of all investment trusts in its sector – Association of Investment Trusts category of "smaller companies" specialists ranked by total return of net asset value for the year to June 30 1989.

Pre-tax profits for the period were up from £1.18m to £1.42m and after tax of £400,000 (£341,000) earnings per 25p ordinary rose from 2.4p to 2.94p.

The interim dividend is 2.16p (1.8p) and a total of not less than 5.75p is forecast for the year.

25% NAV rise at Independent Investment Co

Independent Investment Company, which, following a reconstruction in July 1988, plans capital growth through venture capital opportunities, announced a 25 per cent increase in net asset value, from 60.14p to 75.34p, for the year to June 30.

The directors said there were more encouraging signs that some of the smaller, more recent, investments were developing well and could obtain listings during the current year if stock markets remained healthy.

Pre-tax profits almost doubled, from £702,000 to £1.4m, and after tax of £398,000 (£213,000) earnings per share gained 0.65p to 1.05p.

The dividend is a same again 0.25p but in addition there is a special payment of 0.5p per share.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Aaronson Bros, Abbey Panel, Ayrshire Metal, Greggs, Holders Technology, Lloyds Bank, SMAC, Spice.

Finals- Forminster, Merrydown Wine, Miays, Optical & Intl, Prism Leisure, Shield.

FUTURE DATES

Interims-

Renown	Aug. 9
Rolls Royce	Sep. 14
Royal Dutch	Aug. 10
SD-Scicon	Aug. 16
Shell Transport	Aug. 10
Smith & Nephew	Aug. 10

UK COMPANY NEWS

Government restrictions to be tested as French supplier would be major shareholder

Three statutory water companies plan merger

By Andrew Hill

THREE OF Britain's largest statutory water companies plan to merge, with the backing of France's biggest water supplier.

The proposals will be the subject of an automatic referral to the Monopolies and Mergers Commission. They will provide the first test case for the Government's restrictions on water company mergers, as the 10 public water authorities prepare for privatisation in the autumn.

The merged group – to be known as Three Valleys Water Services – could have a market capitalisation of as much as £100m and would be the UK's seventh largest water supplier. In terms of area covered and population supplied that would put the enlarged group ahead of four water authorities, which also deal with sewage disposal.

Colne Valley, Rickmansworth and Lee Valley water companies cover some 3,200 sq km to the north-east of London, part of Thames Water Authority's area. They already co-operate through the Three Valleys Water Committee, and share a water treatment works at Iver in Buckinghamshire.

Largest shareholder in the merged group would be Compagnie Générale des Eaux, the French water and construction company which already owns Lee Valley and three other statutory water companies. It could end up owning as much as 50 per cent of Three Valleys, because it also has stakes of 28.2 per cent and 16 per cent respectively in Colne Valley and Rickmansworth.

Full terms of the merger will not be announced until after the MMC reports on the proposals. The companies hope the deal could be completed by the end of the year.

The Government's restrictions on bids for water companies with assets of more than £30m were introduced in January following a spate of takeovers by French water companies. The measures were intended to protect the concept of "comparative competition", a central plank of the Government's privatisation of the 10 water authorities.

The deal could squeeze out one of Générale des Eaux's rivals, SAUR Water Services, a subsidiary of French construction group Bouygues. SAUR, which owns four statutory water companies, first bought a stake in Rickmansworth two years ago with Trafalgar House.

Mr John Stansby, chairman of SAUR (UK), said yesterday that a merger between the Three Valleys companies had been SAUR's first intention in 1987. He said the French company would not be interested in retaining its investments if Générale des Eaux had control of the companies, but would try to extract the best deal from Three Valleys.

If the MMC passes the deal, the statutory companies plan to establish Three Valleys as a new public limited company which would then offer its shares to exchange for voting stock in the existing companies. Employees and customers should also be given the chance to invest in Three Valleys.

See Lex

Trevor Humphries

James McGown (left), managing director of Lee Valley Water, and Robert Simpson, managing director of Colne Valley Water and Rickmansworth Water

Storehouse warns of interim profit fall

By Maggie Urry

SIR TERENCE Conran, chairman of Storehouse, the retail group, warned shareholders at the annual meeting yesterday of weakening sales and rising costs which would "inevitably have a seriously adverse effect on our results at the half way stage and, if present trends continue, will also impact the full year's profits".

The shares of the BhS, Habitat, Mothercare and Richards group slipped 2p to 143p yesterday. Last year's results were affected by a £49.4m exceptional write-off, after which pre-tax profits were £11.3m, compared with £114.9m the previous year.

Earlier this month a possible offer for the company at 185p a share from Mr Asher Edelman, a US arbitrageur, lapsed after the Takeover Panel fixed a deadline for a firm offer to be made. Storehouse had refused to recommend the offer.

Sir Terence, who said he was wearing "a BhS suit and humility" looked nervous and unhappy as he faced some tough questioning from the floor.

One shareholder asked whether it would not be better if the group was demerged as Mr Edelman had suggested. Mr Michael Julien, chief executive, said there were benefits for the group staying as it was.

Of the trading outlook Sir Terence said:"I see little prospect of a change for the better for some time ahead. Trading in the first three months of this year has been very difficult for our main UK businesses." He said Habitat in France was trading strongly and the recovery at Richards, the womens fashion chain, was being maintained.

He said sales to date were broadly in line with last year. "However, since the beginning of June we, like other retailers, have experienced some further weakening as high interest rates bite deeper." He said the group had a strong balance sheet following the sale of some interests and it was being strengthened managerially.

Current climate is not favourable for Sock Shop

By Maggie Urry

SOCK SHOP, the niche retailer which came to the USM amid much enthusiasm in 1987, yesterday admitted that current trading was difficult in the warm weather, with interest rates high and with transport strikes affecting the 30 shops in railway and underground stations.

Results for the 17 months to end February showed pre-tax profits at £4.32m on turnover of £44.4m. For the 12 months to end-February, pre-tax profits were £2.4m, slightly lower than the £2.5m made in the comparable 12 months. Sales were 62 per cent ahead at £32.2m.

The dividend for the 17 months totals 3p and earnings per share were 12.3p.

Ms Sophie Mirman, chairman, said:"Our achievements under the current pressures of warm weather, strikes and high interest rates can only lead us to view the future without these obstacles with confidence."

Gearing is now more than 200 per cent with debt at the February year end of £11.4m compared to shareholders funds of about £5.5m. Since then, the company said, stock levels had been reduced by about £1m and there were plans to cut gearing after Christmas. The interest charge in the 17-month period was £273,000.

The group now has 136 shops, of which 103 are in the UK. At the end of February 1988 there were 67 shops.

The group said that sales volumes were running at about 1 per cent lower in like-for-like stores. Demand for tights had dwindled in the hot weather but the introduction of swimsuits had helped sales.

The UK stores made a profit in the 12 months of £3m (£2.6m) on sales of £28.8m (£19.6m) meaning that margins fell significantly. In Europe a profit of £69,000 was made.

In the US a loss of £677,000 was incurred, despite earlier hopes that by now the business would be breaking even. A number of the shops in Manhattan had been subject to armed robberies, and the group said, hiring armed guards cost $1,000 dollars per week per store. Some of the New York stores may be closed and new ones opened in more secure regional shopping malls.

● COMMENT

Sock Shop's story is a fairy tale which looks increasingly likely to have an unhappy ending. The group has expanded at a much faster rate than it could finance and the effect of high interest rates must be to cut profits this year, barring a miracle at Christmas. The company is having to compromise on its trading philosophies. Franchising had been a dirty word with Sock Shop, but now it is being considered as a way forward. Old ideas of sticking to the niche of hosiery are being diluted by other products, even if those have been in the short term the main prop to sales. The disasters in the US should have been avoided if sufficient research had been done first. The shares, which rose 1p to 104p yesterday, are not being rated on fundamentals but the prospect that a larger friend will have to step in and help out.

Shares rise on strong start to year by Boots

By Maggie Urry

Boots, the retail chemist and pharmaceutical group in the middle of an £800m takeover bid for Ward White, the do-it-yourself and autoparts retailer, presented a cheerful picture to shareholders at its annual meeting yesterday, in contrast to the gloom elsewhere in the retail sector.

Mr Robert Gunn, chairman, said the first three months of the year had seen strong growth in both the retail and pharmaceutical divisions.

"The excellent progress of the retail division last year has been maintained during the first quarter of this year." On a comparable basis he said retail sales were up by 11.2 per cent, or 12.5 per cent including the Underwoods stores which were acquired in January and have been converted to Boots stores.

Mr Gunn said that pharmaceutical sales were showing a 12 per cent increase, and in North America were over 15 per cent up. Applications to market Manoplax, a new drug for congestive heart failure, were being compiled for submission during the current financial year, which ends in March.

Tranwood forming consortium fund

By Nikki Tait

TRANWOOD, the USM-traded financial services group headed by Mr Peter Earl, is setting up a limited partnership to invest in corporate reconstructions, turnarounds, buy-outs and the like.

The fund, to be called the Tranwood Consortium Fund, is aiming to raise a maximum of £50m. According to Mr Earl, this will come largely from institutions in the UK, Europe and the US. Tranwood said yesterday that commitments already top £20m, the minimum level required, and that it hopes to close the fund next month.

Tranwood itself is committing £2m to the fund, but – as general partner – will get a 20 per cent share of net profits achieved. It says that the fund puts on to a formal basis the type of "ad hoc" investment consortia deals which it has been involved with over the past couple of years.

These have included buy-ins into small quoted companies, like Stonehill, and a number of property-based transactions, such as Elstree Studios.

Mr Earl yesterday declined to name institutions involved, saying that was a matter for the funds concerned. He added that he expected around two dozen institutions to come in, and that perhaps seven or eight deals might be expected in the first year.

The fund was announced as Tranwood unveiled interim profits before tax of £4.26m in the six months to end-June. This compares with just £456,000 in the same period a year earlier and £4.23m for the last full year. Trading income for the period was £5.12m.

Mr Earl said that there had been a first-time contribution from Tranwood Capital, the venture capital arm, which accounted for just over £3m at the trading income level following the sale of its interest in a rental apartment portfolio in France.

The Ariel stockbroking business chipped in with a small profit. Net interest earned was £341,000 (£39,000).

The tax charge was £1.49m (£160,000) and fully-diluted earnings per share were 2.82p (0.4p). There is an interim dividend of 1p a share.

The company is also establishing a representative office in Paris, in addition to one in Amsterdam.

Sally attacks Red Funnel defence

By Andrew Hill

SALLY UK Holdings yesterday said Red Funnel Group, the Southampton-Isle of Wight ferry line, had "failed to address the key issues of concern to its shareholders" in its defence document.

The Southampton company had not justified its belief that Red Funnel's share price could be sustained without Sally's hostile 205p-a-share offer, said the Ramsgate-Dunkirk ferry group, which is owned by two Scandinavian shipping companies. Sally added that Red Funnel's earnings were threatened by competition and the impact of "long overdue capital investment".

Sally also revealed that Mr Michael Kingshott, Sally's managing director, would be left with a stake in the enlarged group, if more than 51 per cent of Red Funnel were committed to the Sally offer.

Mr Kingshott has underwritten up to 643,777 Red Funnel shares. Others have been underwritten by an institutional syndicate led by Sally's advisers, Tranwood Earl.

Sally intends to inject its three subsidiaries – Port Ramsgate, Sally Line and Sally Leisure – into Red Funnel if the bid is successful. It would also retain the stock market listing of Red Funnel, which trades as Southampton Isle of Wight and South of England Royal Mail Steam Packet. ● A US court has rejected a second attempt by Sea Containers to impose a preliminary injunction on Stena and Tiphook's hostile $824m bid for the ferry and container company. The Washington DC district court first granted Sea Containers an injunction last month, but it was almost immediately overturned on appeal. The Stena/Tiphook bid was extended to August 9 earlier this week.

£8.7m purchase for Polypipe

By Edward Sussman

Polypipe, the plastic plumbing and drainage systems maker, has agreed to buy Simco 281, a company set up to acquire the assets of Derwent MacDee, for an initial £8.7m.

Derwent MacDee, which supplies plastic toilet seats and related hardware, is a division of McKechnie, an engineering and consumer goods group. Its net assets of £4.3m includes £2m to cash. The consideration is being satisfied by 6m new ordinary shares at 139p each in Polypipe. An additional £360,000 in cash will also be paid.

Polypipe is also acquiring certain manufacturing equipment and stock from McKechnie as part of the deal, which it intends to relocate to its new Doncaster facility.

Up to £220,000 of profit-related consideration may be paid.

US expansion for Bowthorpe Holdings

Bowthorpe Holdings is to acquire Switching Systems International (SSI) of Placentia, California, US, for $9.1m (£5.48m), plus deferred cash payments of not less than $3.9m and not more than $10.9m.

Some $900,000 of the initial payment will be held in escrow for 12 months.

SSI designs and makes open frame switchers for specialist computer and medical electronic equipment.

Pre-tax profits for the year to November 30 1988 were $829,000.

Tilbury to develop Peugeot Talbot site at Linwood

TILBURY GROUP, which is fighting an unwelcome £126m bid from Lilley, fellow construction group, has won planning permission to develop 285 acres of the former Peugeot Talbot car plant at Linwood near Glasgow.

Tilbury said it had completed the purchase of the freehold of the entire 350-acre Linwood plant from Peugeot Talbot for £6.1m. The book value of the site, including previously incurred costs, was £8.3m.

Outline planning permission had been granted for a 100,000 sq ft superstore plus 130,000 sq ft of other retail space; a 70,000 sq ft auto centre; a leisure development of 130,000 sq ft; a hotel; a 40 acre business park; 65 acres for industrial development and 20 acres for housing.

Tilbury said Asda Group had agreed to become the anchor retailer and would purchase 15 acres of the site for the £11m superstore of 100,000 sq ft.

Mr Mike Bottjer, Tilbury's chief executive said: "Linwood is one of the most prestigious property developments in Scotland. We are determined Tilbury's strong management team should continue to advance unaided and that Tilbury shall not be sold on the cheap."

Hill & Smith ahead

Hill & Smith Holdings raised its pre-tax profits from £2.33m to £2.86m for the six months ended March 31. Turnover rose by £3.65m to £27.65m.

Earnings amounted to 9.49p (7.94p) and the interim dividend is being lifted from an adjusted 1.29p to 1.75p.

Newgateway holds 40% of Gateway

Newgateway, the losing bidder in the £2bn-plus battle for control of Gateway, is continuing to nudge up its stake in the food retail chain. It has acquired a further 471,000 shares taking its total to 356.2m shares(40 per cent).

P&S falls 8% in first quarter

Pre-tax profits of Portsmouth & Sunderland Newspapers fell by 8 per cent in the first quarter ended July 1 1989.

Turnover rose 15.5 per cent to £19.98m (£17.3m). But certain development costs were taken in the period and the profit fell to £1.65m (£1.8m).

Earnings worked through at 8p (8.6p).

This time there is an extraordinary gain of nearly £3.5m being the group's net profit following the distribution by the Press Association to its members of its shareholding in Reuters.

Correction

Hypo-Bank

Bayerische Hypotheken-und Wechsel-Bank has acquired an initial 25 per cent stake in Richard Ellis Financial Services, a newly-formed joint venture company, not a 5 per cent stake in Richard Ellis as stated in Thursday's Financial Times.

Ladbroke gets go ahead for £200m development

By John Ridding

LADBROKE GROUP, the hotel, betting and property company, yesterday announced that it had been selected by Brighton Borough Council and the British Rail property board to develop a large new office and shopping scheme in the town centre.

The development, which will have a total development cost of £200m, is Ladbroke's largest ever in the UK and follows the acquisition earlier this week of its largest US development.

The scheme, which comprises 473,000 sq ft of offices and 100,000 sq ft of shop, will be owned outright by Ladbroke and developed on the basis of a 150-year lease.

Wyncote Developments, a local developer, has a profit-related interest to the scheme.

Mr Cyril Stein, Ladbroke's chairman, said: "Ladbroke and Wyncote confidently expect the office development and superstore to be pre-let."

Globe Trust nav up 6.5%

By Nikki Tait

GLOBE INVESTMENT Trust, Britain's largest investment trust with net assets topping £1.1bn, yesterday announced a 6.54 per cent increase in net assets during the first quarter of 1989/90.

Net assets per share, on a fully diluted basis, rose from 205.14p to 218.53p during the three months to end-June. This easily outstripped the 2.37 per cent rise in the FT-All Share Index during the same period.

The trust showed a pre-tax profit of £7.4m to the first three months, and earnings per share (fully diluted) of 1p. The group's net assets, after the elimination of retained profit, stood at £1.17bn at end-June, compared with £1.1bn at end-March.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Automated Sec	int	1.5	Nov 10	0.86	-	2.7
Bank Leumi (UK)	int	4.52	Sept 22	4.1	-	13.5
Bredero Props	int	2.4	Nov 10	2	-	6
Darby Trust	int	3.518	Aug 31	5.069	-	11.882
Hill & Smith	int	1.75	-	1.292*	-	4.167*
ICI	int	21	Oct 2	18	-	50
Jacobs (John)	int	1.5	-	1.5	-	4.3
Jacques Vert §	fin	2	-	8.5	11.5‡	8.5
Kode Int'l	int	2.5	Aug 25	5	-	10
Leadg Leisure ◆	int	1	-	0.5	-	2
Sock Shop	int	1	Sept 14	0.8	3☆	0.8
Tranwood §	int	1	Oct 6	-	-	1.5
Wace Group	int	1.75†	Sept 4	1.25	-	4
Yeoman Inv Trst	int	5	-	4.3	-	10.8

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ◆Third market. ‡For 15 months. ‡Carries scrip option. ☆For 17 months.

UK COMPANY NEWS

Organic growth helps Wace double to £8.24m

By John Thornhill

WACE GROUP, the pre-press services company, more than doubled pre-tax profits to £8.24m in the half-year to June 30. In the corresponding period, Wace made £3.44m, although this was restated to include subsequent acquisitions included on a merger-accounting basis.

Mr John Clegg, managing director, said that all the group's divisions were operating very profitably and the majority of the growth during the period had been organic.

Turnover vaulted dramatically to £72.51m (£27m – restated). An interim dividend of 1.75p (1.25p) was declared – an increase of 40 per cent – and earnings per share grew by 60 per cent to 11.2p (7p).

Techtron, the US pre-press services company bought last September, contributed £1.8m to profits. Mr Clegg said the margins in the business had been steadily improving from the 8.7 per cent at the time of the acquisition to 10 to 12 per cent in the current year. By next year it is hoped this will rise to the 14 per cent achieved in the UK.

Mr Clegg said the second half of the year might be more active in terms of acquisitions, particularly in continental Europe. Several possible acquisitions were under review.

A purpose-built manufacturing premises and head office is being built at Shepherdess Walk in London. Wace intends to move into these buildings by the end of the year and expects this will enhance operating margins.

Wace appointed another non-executive director to the board in May and is planning to strengthen the company's management further.

● COMMENT

The stock market is seemingly becoming inured to Wace's remarkable progress and is beginning to treat the outstanding as merely commonplace. The shares slipped 9p on these results to 422p, which on the face of it seems rather surprising – although it can perhaps be justified by the strong rise that preceded the announcement of the results. Wace's recipe of both mixing and matching businesses in the pre-press and printing areas and also consolidating a highly fragmented market has proved to be most successful. But, the company stresses, there is still enormous market share to aim for – Wace claims to be the world leader in pre-press services but estimates that it has less than 1 per cent of the total market. This particular period was characterised by strong organic growth and was, by Wace's standards, e time of quiet consolidation – only six acquisitions were made. But more purchases look on the way, boosting what is traditionally a firmer second half. Pre-tax profits may climb to over £19m, putting Wace on a prospective multiple of about 17. That still represents fair value for a company with such promising potential and Wace will offer better yet if the shares temporarily dip further after the results' announcement as they have in the past.

P&O pays £25m for property company

By Edward Sussman

P&O, the shipping and property gronp, is to buy Crowngap Limited, a property development and investment company, for consideration of up to £25.4m.

Co-operative Wholesale Society, which holds one-third of Crowngap, operates a number of joint developments in the south of the UK with the company. It said yesterday that thosa ventures would continne. CWS, the manufacturing end wholesaling arm of the Co-op retail movement, said it was disposing of its stake because Crowngate's activities did not fit in with mainstreem of CWS's operations.

Another third of Crowngap is held by Royal Insurance and the bulk of the remainder is believed to be held by Crowngap co-fonnder Mr Roy Wright. The company was founded in 1976 by Mr Wright and Mr Ray Corser. It formed a link with Royal Insurance in 1985 and has been backed by CWS since its creation.

P&O said Crowngap's net assets were roughly equal to the purchase price but did not provide details. No profit or turnover figures for Crowngap were released. P&O plans to retain the present management.

Of the initial £17.5m to be paid, £7.4m will be in cash. The balance is to be paid in P&O deferred stock. An additional £7.9m payout is linked to the performance of ongoing development projects.

Oceonics back in the black

A SOMEWHAT better-than-expected *second half pushed* up profits at Oceonics Group to £876,000 for tha year ended *March 31 1989, compared* with a loss of £1.97m previously.

The group also eustained losses in 1985-86 and 1986-87 totalling £12.78m.

Turnover last year expanded to £21.87m (£16.75m), from which an operating profit of *£628,000* was earned (lose £1.53m). There was net interest receivable of £152,000 (payable £393,000). *Earnings per share* came to 0.3p (losses 6p).

Turnover in survey and positioning *rose to* £16.75m while the operating profit, before corporate overheads, was £2.02m (loss £865,000). Costs ware reduced *allowing* more business to be done *with six fewer* offices and major investments were made in new hardware and eystems. Sales of computers and networks rose 13 per cent to £5.12m and the operating loss was £633,000 (profit £43,000) before corporate overheads but after development expenses of £850,000 (£550,000).

Control Techniques rights and acquisition

By John Ridding

CONTROL TECHNIQUES, manufacturer of electronic variable speed drives, yesterday announced a £9.4m, one-for-three rights issue, part of *which will finance the* acquisition of Moore Reed, the electro-mechanical components subsidiary of Kode International.

Kode, which will receive a total of approximately £3.8m, is selling the subsidiary following continued group losses.

The company yesterday announced pre-tax losses of £227,000 for the six months to the end of June, compared with pre-tax profits of £791,000 in the comparable period.

However, Mr Stephen Day, chief executive said that this reflected an improvement over the *second half of last year* when losses of £382,000 were incurred.

He said that the proceeds of the sale would be used to eliminate gronp borrowings and that the company was now focussing on its core, higher margin businesses.

In the first half of the current year, the losses inclnded an exceptional charge of £176,000 and continned tight margins in its computer hardware distribntion market.

The loss per share was 2.7p, compared with earnings of 8.9p end the dividend has been halved from 5p to 2.5p per share.

Moore Reed, which reported pre-tax profits of £256,000 in the twelve months to the end of December only just broke even in the first half of the current year.

This result reflected its reliance on the defence industry, which is suffering reduced spending. Control Techniques said *that it intended to reduce* Moore Reed's dependence on this sector.

Mr Trevor Wheatley, chairman of Control Techniques, said that Moore Reed is complementary to its existing operations and will bring an additional range of motion con*trol products*.

The halance of the rights issue, which is being priced at 195p per share, will be used to increase working capital, reduce group debts and meet deferred acqnisition payments totalling about £1.2m.

Control Techniques share *price closed down 1p at 233p* yesterday, helped by a statement from the company that current trading is buoyant and that pre-tax profits for the year to the end of would not be less than £4m, compared with £2.69m last year.

UK COMPANY NEWS

BT chief's rise criticised as 'morally unacceptable'

By Hugo Dixon

MR IAIN Vallance, chairman of British Telecom, has become the latest top British executive to face the wrath of shareholders for being awarded a large increase in his salary.

The criticism at the company's annual meeting in Birmingham yesterday comes amid the controversy about the size of the remuneration that Lord King has received this year as chairman of British Airways and FKI Babcock.

Mr Vallance's pay in the year to the end of March increased £57,000 to £283,000. This rise was described as morally unacceptable by Mr Melville Jones, a BT shareholder.

Mr Jones said there was an inconsistency between Mr Vallance's receiving such a hike in the same year that employees received £8m less from the company's profit share scheme. He also argued that BT directors should be setting an example at a time when the Government was exhorting industry to keep pay rises to the minimum.

Mr John Raisman, BT's deputy chairman, defended Mr Vallance's pay rise by pointing out that most of it reflected his promotion from chief executive to executive chairman. Only £22,000 of the increase was his annual pay rise, corresponding to an increase of 8.4 per cent.

"I don't think that can be regarded as unreasonable," Mr Raisman said. "Nor do I regard his total salary as unreasonable. He is by no means in the top league."

Mr Vallance explained that the employee profit share scheme had been cut from £88m to £80m because "performance was not as good as we would have wished". However, he contended that there was no moral conflict in his pay going up at the same time because "profit sharing and remuneration are completely separate issues".

Mr Vallance ran into a barrage of criticism on numerous other issues from shareholders in what was the company's fifth annual meeting.

However, only 830 shareholders turned out, compared with over 1,000 last year and many more in the first years after privatisation.

One of the most serious criticisms came from Ms Eleri Carrog, who accused BT of discriminating against the Welsh language by using only English in its phone directories, bills, operator inquiries and other services. Unless BT implemented a proper bilingual policy for its Welsh customers and shareholders, the company should change its name to English Telecom and Wales should have its own Telecom Cymru.

Mr Vallance promised to consider setting up a special panel to look at these questions.

He also took advantage of the meeting to renew his attack on the Government for discriminating against BT in favour of its competitors. He was particularly incensed that Mercury Communications had been promised one of the UK's new mobile phone licences while BT had been prevented from applying.

Meanwhile, he described as totally illogical the Labour Party's plan to take BT back into state control should it win the next election.

Bredero up 33% and calls for £42.4m

By Edward Sussman

BREDERO PROPERTIES, the development group which specialises in town-centre retailing, announced a four-for-five rights issue to raise £42.4m.

At the same time Bredero, which is 52.97 per cent-owned by Slough Estates, said its pre-tax profits for the six months to June 30 increased 33 per cent to £2.57m (£1.93m) as turnover rose 69 per cent to £24.7m (£14.7m). Earnings per share were up 23 per cent to 9.6p (7.8p). An interim dividend of 2.4p (2p) was proposed.

Mr Peter Badcock, finance director, said that the proceeds will be used to retain substantial interests in ongoing and future development projects. These include the Bon Accord centre, the biggest retail venture in Aberdeen; retail developments in Paisley and Fleet; and Centre West in Hammersmith. The exact stakes to be retained have not been determined.

Slough Estates is underwriting the issue and said it has fully subscribed for the 8.4m shares it is entitled to at 265p per share. Bredero was down 20p at 305p yesterday.

Bredero, which won a stock market listing in June 1986, said its development programme exceeded £500m from £200m at the time of flotation. Major retailing centres in Glasgow, Southampton, Solihull and Sheffield are being planned.

Trevor Humphries

Sir Denys Henderson (above), chairman of Imperial Chemical Industries, the UK's biggest chemical company, handling questions at the first conference it has ever called on the occasion of its interim, rather than full-year, results.

The company is widely viewed as an economic barometer, so it was not surprising to find the assembled journalists and analysts seizing the occasion to quiz Sir Denys on the company's view of the world economy. However, Sir Denys was careful not to commit himself.

When asked whether he expected a soft or a hard landing, he said: "We think it will be some way between the two. But nobody really knows."

He did not expect a repeat of the recession of the early 1980's, but added: "It is too early to say at this stage. We do not think we will have real certainty until after the summer break."

Gibb & Partners to merge with US consultant engineer

By Andrew Taylor, Construction Correspondent

SIR ALEXANDER Gibb & Partners, one of Britain's largest consulting engineers, is to merge with Law Companies Group, a US engineering consultant, to create a worldwide business with a turnover of more than £140m.

The combined business would have its headquarters in the US while the UK firm would become a private limited company rather than a partnership. It would continue to operate from its Reading headquarters and maintain its British identity, according to Gibb.

Mr Geoff Coates, Gibb's senior partner, said the merger and becoming a private limited company would provide greater access to resources to expand. "I am convinced Gibb's future lies in a larger and more powerful grouping and will enable the firm to operate from a very strong financial base."

The combined group would employ 3,400 staff making it one of the world's largest consulting engineers.

Law Companies Group is based in Atlanta, Georgia specialising in geotechnical and materials engineering, construction and environmental services and is 100 per cent employee owned.

It had revenues last year of $120m making it the 31st largest consulting engineer in the US according to Engineering News Record, the US engineering magazine.

It is the third large merger involving British consulting engineers to be announced in the last two years. Mott Hay & Anderson and Sir M. MacDonald announced they were merging in January while Freeman Fox and John Taylor merged in 1987 to create Acer Group.

British engineering consultants, concerned at the way international contractors have been winning a growing share of project management work, have been seeking to increase their own range of skills and financial muscle by merging with other operations.

This is particularly important if consultants are to play a bigger role in promoting privately-financed infrastructure projects. Mott MacDonald for example has been considering taking small equity stakes to get projects in Malaysia and Indonesia off the ground.

Law Group hopes to expand its international work particularly in Europe and Africa where Gibb is strong.

Yorkshire Bank improves 20% to £58m

By David Barchard

YORKSHIRE BANK, the small clearing bank based in Leeds which is jointly owned by the "Big Four" clearers, announced pre-tax profits of £58m for the six months ending June 30, an increase of 20.3 per cent on the same period last year.

Total assets rose by 14.9 per cent during the half year to reach £3.66bn. Net interest income was £93.8m compared to £81.7m in the first half of last year. Lending to businesses and personal lending were both said to be well up.

During the first six months of this year, Yorkshire Bank launched Yorkshire Bank Development Capital, a new subsidiary, which Mr David Mortimer, controller for marketing, said had got off to a flying start by negotiating a substantial buy-out deal for Parkside Flexible Packaging.

Tobacco surge boosts Gallaher to £119.5m

GALLAHER, the international group with interests in tobacco, optics, retail distribution and housewares, raised its profits by £6.8m to £119.5m pre-tax for the first six months of 1989.

Sales for the period improved from £1.94bn to £2.05bn, excluding VAT, and at the trading level profits were ahead by some 18 per cent to £134.7m.

Interest costs of £15.2m (£1.9m) included a charge of £12.8m relating to an exceptional cash dividend paid at the end of 1988.

Trading profits of the tobacco division surged from £92.9m to £119.9m on the back of a £95m rise in sales to £1.58bn. In the UK the division strengthened its leading position in cigarettes and increased both market share and volume.

Trading profits of the overseas tobacco companies were also well ahead.

The directors said the optics division, where trading profits fell from £8.9m to £6.1m, had been affected by the twin blows of VAT and, for most people, the abolition of free sight tests.

Turnover here improved from £96.7m to £110.6m.

Within a scheme of reorganisation, management control of the office products companies has been transferred to a fellow subsidiary of the group's parent, American Brands, and the division's sales for the period of £71.1m and trading profits of £5.7m have been excluded from the results.

It is expected that legal ownership will be transferred during the current year by means of a special dividend.

Bank Leumi UK profits jump

In the first half of 1989 Bank Leumi (UK) continued its growth and showed a substantial increase in profit.

After tax and transfer to inner reserves the disclosed net profit rose 67 per cent, from £819,000 to £1.36m. That followed a 37 per cent lift to £2.63m in profit for the whole of 1988.

The interim dividend is raised from 4.1p to 4.5p per share, at a cost of £304,000 (£263,000). There is again a scrip alternative.

COMMODITIES AND AGRICULTURE

Producers patch up nutmeg cartel

By John Murray Brown in Jakarta

INDONESIA and Grenada, the largeot producers in the US$85m-a-year world nutmeg trade, have agreed to patch up a two-year-old spice cartel which had heen seriously threatened by Indonesian price cutting.

After talks in Jakarta last week Mr Norris James, Chairman of the Grenada Co-operative Nutmeg Association, and Aspin its Indonesian counterpart signed an agreement on marketing co-operation and price coordination which requires Indonesia to raise its export prices immediately by almost 10 per cent to hring them in line with Grenada's.

Aspin also appointed First Pacific Commodities as sole agents to handle all Indonesia's nutmeg exports which last year were worth ebout $50m. The company is the Singapore-based trading arm of the group operated by Mr Liem Sioe Liong, an Indonesian-Chinese financier closely connected with President Suharto.

Indonesia supplies about 75 per cent of world nutmeg, Grenada 23 per cent. More than half Indonesian production is sold as a food additive in soft drinks in the US, the largest market. Grenadian nutmeg, although better placed geographically to tap the US market, is considered of inferior quality by huyers.

In the 1987-88 season Indonesia sold its entire crop to Catz, the Rotterdam trader, in a move reminiscent of the Dutch and Portuguese monopolies of over 300 years ago when the spice islands of the East Indies first attracted world attention.

After some criticism from the Trade Ministry Aspin beld an auction of last year's nutmeg crop in a bid to sell direct to the buyers.

Traders said Indonesia was selling some grades at around $4,500 a tonne, undercutting the original minimum price agreement by as much as $2,000. Mr Jantje Worotitjan, Aspin's president, gave details of a new minimum price formula pegged to a price of $6,850 a tonne for ABCD, Grenada's defective grade, which is considered inferior to Indonesia's low grade BWP (broken, wormy and punky). Mace, the pungent red membrane which surrounds the nut, will be calculated on a $14,000-a-tonne price for the Grenadian product.

Mr Worotitjan confidently predicted a 20-25 per cent increase in the price in the wake of this week's accord. Indonesian exports are projected to fall to about 3,000 tonnes from 4,000 in 1988, while Grenadian sales are expected to fall to about1,500 tonnes from 2,000 tonnes.

US aims to build on success of agricultural policy

Nancy Dunne begins a series of articles on the future shape of US farming

"THERE IS no immutable economic law that says small farmers have to go and small farms have to die," Senator Tom Harkin of Iowa told a group of farm representatives at a fundraising function this week.

Still, hundreds of thousands have gone during the past decade. By one count, 400,000 farmers have lost their land since 1985 alone when the US farm programme dramatically altered its course, depressing American commodity prices to make US exports more competitive.

In Washington, where the sound of the auction gavel is muted by distance and repetition, the 1985 Farm Programme is seen by the Administration has having been more successful than not. It sent a message, says Mr Clayton Yeutter, the US agriculture secretary, that the US, would "no longer underwrite production expansion around the globe" through high support prices.

Although the US has never exported more than one-third of its agriculture production, it was decided in 1985 that agriculture's best interest rested on recapturing foreign markets through lower prices and export subsidies. In theory, this was to bring the EC to its knees, raising the cost of the Common Agriculture Policy to get Community agreement on a phase-out of farm subsidies.

A farm "safety net" of production subsidies was established to protect domestic producers from losses when prices fell below the cost of production, and the price tag on the farm programme soared to historic levels. Costs reached $25.8bn in 1986 before they began to decline to the $10-15bn range.

Since subsidies are based on units of production, most of the largess went to the largest farm operations. A $50,000 limit on payments was largely bypassed by the simple expedient of farmers subdividing their holdings among family members.

"The 1985 Act achieved many of its objectives," Mr Yeutter said in recent Congressional testimony. US agricultural exports bottomed out at $26bn and 110m tonnes in 1986 and the USDA expects to export 146.5m tonnes of agricultural products worth about $39bn. It was not, however, until last year, when the drought raised prices, that farm prices began to recover, compensating for lower export values.

Even with the combination of lower prices and subsidies, the US still has not regained its earlier market shares. Its share of the world wheat market, 44 per cent in 1981-82, plummeted to 26 per cent before rising again to a projected 37 per cent for 1988-89. At the same time coarse grains fell from 54 per cent to 39 per cent and are expected to rise again to 52 per cent.

A farmer on his tractor for the last time as the auctioneer calls for bids for his business

The US market share for soyabeans has not recovered at all. Without production snpports until last year's Drought Assistance Act, it fell from 87 per cent in 1981-82 to a projected 59 per cent this year.

The programme has other problems. Instead of "getting the Government out of agriculture" as the Reagan Administration had eongbt, tbe US Agriculture Department now has a major role in price-setting: dealing out export subsidies to depress prices and reduce stocks, setting loan rates and rednclng acreage.

A recent report from tbe General Accounting Office found the programme so complicated and expensive to operate that administrators are "stressed out" under the pressure and the staff costs rose 48 per cent between 1985 and 1988.

Government money, pouring out to the farm belt, raised 1987 net cash income to the average level of the 1970s, the GAO said.

Still, the apparent achievements of the current programme are serving as a starting point in the debate for the farm bill which must be written next year. With the budget squeeze on, the Administration is focusing on reduced costs.

"We must ask ourselves whether annual outlays for price and income supports at levels significantly above the long-term everage are defensible to the American taxpayer," Mr Yeutter said. He believes the answer is no, and that the link between prices, income supports and production must be hroken.

"To reduce budget exposure, we traditionally idle land, but idling land shorts the market and raises unit production costs, therehy making us less competitive in world markets," he said. "Our competitors relish that situation, knowing that we have often handed them market share on a silver platter."

The Agriculture Committee, heavily weighted with farm interests, will seek to protect its constituency as well as possible with an increasingly tattered farm "safety net." But proposals from populist farm groups that the US shift gears, raise income onpports, and protect domestic markets are being given short shrift.

Partly, it is because the composition of the farm constituency has cbanged as farme grow increasingly large and power is concentrated in the hands of giant grain traders and agribusiness operations. As tbe Agricultural Policy Working Group put it, in a recent report, "Extreme alternatives can he expected to receive little attention."

The Group is supported hy such companies as Cargill, Inc; Central Soya Company; Monsanto Company and Nabisco Brands, which benefit from low farm prices.

So the new farm bill will be marked hy tinkering with the old. There are proposals to increase "planting flexibility" to allow farmers to shift into alternative crops. There will be environmental provisions and a focus on promoting low input sustainable agriculture. Lower production subsidies are inevitable. There will be new aid for "rural development."

Once rural husiness needed a healthy farm economy to survive. Now, with so many farmers landless or requiring outside earnings to hold on to their land, new industrial employment is required to support the farming community.

Austria tunes in to gold coin sales

By Kenneth Gooding, Mining Correspondent

"A NEW era of relaxed restrictions for gold investment in Austria" will begin on October 1 with the launch of new gold bullion coins, according to tbe World Gold Council.

In its Gold Review, the council suggests that increased gold investment can be expected for several reasens. Austrian nationals will be able to buy the new, legal tender coins, called the Philbarmonica, without paying value added tax, whereas previously only foreigners could hny gold coins in Austria free of VAT.

Moreover, foreign bullion coins will be eligible for purchase by Austrian nationals either next year or in 1991.

The new coins will be distributed and sold directly hy the Austrian Mint, will be 99.99 per cent pure gold and be either of one troy ounce or one quarter of an ounce with face values of ASh2000 and ASh500 respectively.

The Gold Review says that last year the Austrian market absorbed abont 20 tonnes of gold. Nationals bought about ASh5bn-worth while foreigners, particularly those from OECD countries, accounted for an estimated ASh8bn.

Peruvian mine working soon

MR MARIO Samame Boggio, Peru's Energy and Mines Minister, said yesterday that the state-owned Centomin's hombed-out Morococba mine would be working again within two months, reports Renter from Lima.

Maoist guerrillas wrecked much of the mine's machinery in bombings on July 14.

"Repairs are in progress and the mine will be functioning at full capacity within a month or two," Mr Samame Boggio said.

Centromin officials had estimated after the bombing that it would take at least a year to put the silver, zinc and lead mine back in operation.

New chief for metal exchange

The London Metal Exchange has appointed Mr David King, at present director of finance and administration, to be chief executive from January 1. He will succeed Mr Michael Brown who announced recently that he intended to retire.

Mr Chistopher Green has been re-elected chairman of the exchange for another year until July, 1990, and Mr John Wolff was re-elected vice-chairman.

Action comes too late to save Zanzibar's ailing clove industry

Nicholas Woodsworth examines the reasons for the unstoppable decline of the country's major business

AT KIZIMBANI, in the centre of the lush green island of Zanzibar, two buildings, one devoted to pleasure, the other to science, sit side by side.

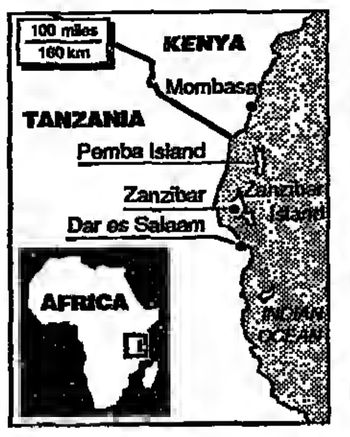
The first is a minor architectural treasure of domed chambers, echoing veults, sunken pools, and intricate plumbing; it was huilt hy the Sultan of Zanzibar 130 years ago so that his many wives could bathe in privacy when he came to tour his Kizimbani clove estates. The second is more prosaic; a collection of rooms housing desks, wall charts, and scientific equipment, it is maintained by Britain's Overseas Development Administration (ODA) as a research station investigating clove production.

Happily for sigbtseers, the Sultan's baths, once a crumbling ruin, bave recently been restored; new mortar, plaster, and whitewash have brought them back to their original state. Unhappily for Zanzibar, however, not all the efforts of the ODA or the Government have been able to restore the island's clove industry to its own original state. Once the prosperous producer of over 90 per cent of the world's cloves, Zanzibar's major industry continues to slip down a long road of steady decline.

By the time the Sultan built his baths in the middle of the last century, a clove industry was already well established on Zanzihar and its sister island, Pemba. Brought from the south Pacific hy the Arab aristocracy who ruled Zanzibar, cloves were grown on large, slave-worked plantations such as Kizimbani. Throughout the second half of the 19th century the much sought-after spice made Zanzibar one of the richest trading centres in the Indian Ocean.

The Arab elite's extravagant lifestyle, the abolition of slavery in the 1890s, and the introduction of a wage economy heralded an end to the days of the great clove estates; by the 1920s the rural indebtedness of many Arab landowners resulted in the takeover and fragmentation of plantations hy local Indian husinessmen.

In spite of a halt to expansion on the island, increasing prices and a steadily growing world market assured the continuation of the Zanzihar industry. One of the biggest markets to develop in the inter-war years was in Indonesia, where, apart from in cooking, cloves are used in large quantities in the preparation of clove-scented cigarettes. In 1959 Zanzibar produced its largest harvest of 22,000 tonnes, and it remained the world's largest clove producer until the 1970s, when increasing production in Indonesia coincided with a steep decline in Zanzibar's production.



The reasons for decline are both human and natural. In 1964 newly-independent Zanzibar entered into political union with Tanganyika to form the state of Tanzania. Under the leadership of Julius Nyerere, Tanzania embarked on a series of socialist experiments.

In the agricultural sphere, one of these experiments was the further breaking up of clove plantations into three acre units and their distribution to landless peasants. Another was the revision of agricultural producer prices to rock-bottom levels — by the early 1970s a state-controlled marketing board was paying Zanzibar clove producers only 7 per cent of world market prices.

Neither of these policies was of any aid to clove production. Debutant farmers knew little of the techniques of clove tree growing or harvesting, and even less of management. Trees were neglected out of harvest season, and damaged during picking by inexperienced and unsupervised labour. Without adequate price incentives, farmers could not afford fertilisers or weed control, and lacked the necessary capital to undertake replanting when old trees died out.

By the mid-1970s, the Government realised that technical aid and replanting projects were necessary if the industry was to continue. But although it undertook long-term programmes of replanting and extension work, a failure to raise producer prices resulted in continued neglect — production dropped as low as 1,000 tonnes annually.

It was only in 1981 that the Government officially recognised the need for a change in policy and raised producer clove prices, if only marginally. In 1986, however, Tanzania underwent a major shift in both ideology and economic policy, and under a new IMF-sponsored economic recovery programme, Zanzibar raised producer prices from TSh25 (11p) to TSh71 a kilogram. Today farmers are receiving TSh 100 a kilo, a price that has done much to encourage greater production.

The tragedy is that it is too late. Although Zanzibar now only grows one tenth of the total world production, the 80,000 tonnes produced globally by such competitors as Indonesia, Madagascar (with which Zanzibar now vies for the position of second largest producer), Brazil, India, and Penang have forced world market prices to all time lows. Once as high as US$9,000 a tonne, clove prices dropped from US$3,000 in 1987-88 to US$1,800 this year.

To these man-made problems must be added a natural one. Although the clove tree disease known as "sudden death" has been present on Zanzibar and Pemba for decades, it has lately taken a high toll. Of the total tree population of approximately 4.5m, about 1m have been affected in recent years.

Although in 1988-89 Zanzibar has produced what in today's terms is a bumper harvest of more than 10,000 tonnes — a regular harvest is now no more than 8,000 tonnes — it will not be enough to offset falling prices. With about 90 per cent of Zanzibar's foreign exchange coming from cloves, and long-term plans for diversifying its economy through tourism only now emerging, Africa's spice island can expect yet one more difficult stretch ahead.

WORLD COMMODITIES PRICES

LONDON MARKETS

Precious metals made gains on the back of a weaker dollar yesterday. Gold ended the day at $374.25 a troy ounce, up 50 cents an ounce, while platinum rose by $7.5 an ounce to $500.25. Even though gold gave up most of its early gains, dealers suggested the trading range was gradually creeping higher. The metal seemed to be confined to between $372 and $375 an ounce at the moment, up from about $370 to $374 earlier in the month. Nickel consolidated recent gains on the London Metal Exchange and metal for immediate delivery rose by another $25 a tonne to $12,825. Dealers said the market was pausing after Wednesday's rise to a seven-week peak. Robusta coffee futures closed mixed after an erratic day. The market fell initially, recovered and then lost most of its gains in sympathy with a downturn in New York arabica futures.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$14.65-4.75c	+0.10
Brent Blend	$17.20-7.35w	+0.05
W.T.I. (1 pm est)	$18.23-8.28z	-0.19
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$185-188	
Gas Oil	$149-150	
Heavy Fuel Oil	$84-86	
Naphtha	$154-156	+1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)✥	$374.25	+0.50
Silver (per troy oz)✥	523c	
Platinum (per troy oz)	$500.25	+7.50
Palladium (per troy oz)	$148.65	+1.00
Aluminium (free market)	$1765	+10
Copper (US Producer)	116½-120	+4½
Lead (US Producer)	38.5c	+.5
Nickel (free market)	595c	+5
Tin (Kuala Lumpur market)	25.61r	+0.07
Tin (New York)	415c	+1.0
Zinc (US Prime Western)	80¾c	
Cattle (live weight)†	115.89p	-4.26*
Sheep (dead weight)†	152.39p	-25.6*
Pigs (live weight)†	83.05p	-3.52*
London daily sugar (raw)	$349.6t	-0.4
London daily sugar (white)	$503.5t	+7.5
Tate and Lyle export price	£325	-8
Barley (English feed)	£104.75z	
Maize (US No. 3 yellow)	£130	
Wheat (US Dark Northern)	£121.75t	
Rubber (spot)♥	56.00p	-0.25
Rubber (Sep)♥	60.75p	-0.25
Rubber (Oct)♥	61.25p	
Rubber (KL RSS No 1 Aug)	252.0m	+0.5
Coconut oil (Philippines)§	$510x	-10
Palm Oil (Malaysian)§	$305t	-5
Copra (Philippines)§	$330	
Soyabeans (US)	£187w	
Cotton "A" index	84.95c	+0.70
Wooltops (64s Super)	600p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Oct/Dec. w-Aug. z-Sep. u-Jun/Jul. x-Jul/Aug. t-Aug/Sep. v-Aug/Oct. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ✥ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Jul	837	856	845 836
Sep	850	866	858 846
Dec	900	910	912 898
Mar	878	892	889 875
May	888	901	897 883
Jul	903	915	910 900
Sep	910	930	923 914

Turnover: 6005 (2163) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for Jul 26 1079.76 (1076.71); 10 day average for Jul 27 1077.15 (1070.84)

COFFEE £/tonne

	Close	Previous	High/Low
Jul	784	786	798 783
Sep	779	779	792 770
Nov	786	785	800 777
Jan	806	800	818 798
Mar	830	828	835 821
May	852	855	860 850
Jul	877	880	883 871

Turnover: 3947 (5683) lots of 5 tonnes. ICO indicator prices (US cents per pound) for Jul 26: Comp. daily 73.44 (73.53). 15 day average 76.43 (77.25)

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Aug	323.00	315.60	321.00 312.00
Oct	324.40	317.20	325.00 313.00
Dec	323.00	305.00	300.00
Mar	301.60	296.80	302.00 293.20
May	297.00	292.00	292.00 290.00
Aug	292.00	288.00	
White			
Oct	422.50	418.00	423.50 417.00
Dec	381.50	378.50	378.00 376.00
Mar	367.50	363.00	368.00 363.50
May	364.00	360.00	361.00 354.50
Aug	360.50	358.50	360.50 360.00

Turnover: Raw 3916 (7122) lots of 50 tonnes. White 1842 (1634). Paris- White (FFr per tonne): Oct 2683, Dec 2415, Mar 2313, May 2298, Aug 2298, Oct 2255.

CRUDE OIL $/barrel

	Close	Previous	High/Low
Sep	16.73	16.60	16.81 16.56
Oct	16.77	16.64	16.63 16.61
Nov	16.85	16.68	
IPE Index	16.81	16.87	

Turnover: 8878 (13732)

GAS OIL $/tonne

	Close	Previous	High/Low
Aug	148.00	148.75	149.50 148.50
Sep	147.50	148.75	148.00 146.50
Oct	148.00	146.25	150.00 147.00
Nov	149.75	150.00	151.00 149.25
Dec	151.75	150.50	153.00 150.50
Jan	149.00	149.00	150.00 149.00

Turnover: 8945 (5677) lots of 100 tonnes

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 7,225 tonne
Cash	1750-1	1735-40	1758	1757-8		
3 months	1755-6	1743-5	1765/1753	1763-6	1753-5	20,305 lots
Copper, Grade A (£ per tonne)						Ring turnover 31,200 tonne
Cash	1570-2	1570-2	1580/1572	1580-1		
3 months	1593-4	1555-6	1581/1545	1560-1	1553-4	71,532 lots
Lead (£ per tonne)						Ring turnover 4,300 tonne
Cash	416-7	417-9		419-20		
3 months	406-6.25	409-10	408/405	407-8	407-8	9,751 lots
Nickel ($ per tonne)						Ring turnover 1,536 tonne
Cash	12800-850	12600-800	12975/12800	12975-3000		
3 months	11825-50	11800-50	12000/11850	11975-2000	11830-850	5,665 lots
Tin ($ per tonne)						Ring turnover 950 tonne
Cash	9725-35	9715-25	9735	9715-20		
3 months	9710-20	9700-5	9730/9700	9700-5	9719-20	3,215 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 6,800 tonne
Cash	1678-5	1650-5	1670/1665	1665-70		
3 months	1598-6	1577-8	1597/1585	1590-3	1595-6	10,730 lots
Zinc ($ per tonne)						Ring turnover 4,675 tonne
Cash	1600-10	1595-600	1605/1600	1600-5		
3 months	1540-5	1526-30	1540	1538-40	1540-50	7,790 lots

POTATOES £/tonne

	Close	Previous	High/Low
Nov	129.6	130.0	130.0 126.0
Feb	150.0	150.0	
Apr	213.8	213.0	216.0 210.0
May	238.0	232.0	231.0 230.0

Turnover 317 (457) lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Oct	133.00	140.00	139.50 138.50
Dec	137.00	137.00	137.00 136.50

Turnover 300 (107) lots of 20 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Jul	1391	1393	1400 1391
Aug	1460	1434	1450 1440
Oct	1550	1540	1550 1547
Jan	1577	1585	1577 1567
Apr	1603	1597	1600
Jul	1350	1350	

Turnover 450 (272)

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Sep	105.95	105.00	106.15 105.90
Nov	109.65	108.00	110.00 109.65
Jan	113.45	113.55	113.70 113.40
Mar	116.75	117.00	117.10 116.75
May	119.95	120.10	120.00 119.90
Jul	121.75	122.10	121.75
Barley	**Close**	**Previous**	**High/Low**
Sep	103.75	103.55	103.70 103.35
Nov	107.40	107.00	107.40 106.85
Jan	110.70	110.50	110.60 110.35
Mar	113.45	113.25	113.25 113.15
May	115.40	115.20	

Turnover: Wheat 248 (268), Barley 108 (117). Turnover lots of 100 tonnes.

PIGS (Cash Settlement) p/kg

	Close	Previous	High/Low
Aug	114.5	114.5	113.5
Oct	119.0	119.5	
Nov	115.0	115.0	119.0

Turnover 7 (8) lots of 3,250 kg

FRUIT AND VEGETABLES

CYPRIA PERLETTE, Sultana and Thompson seedless grapes are in peak supply this week 55-75p a lb (70p-£1.20), reports FFVIB. Greek peaches are 10-18p each, English Early Rivers plums 40-50p a lb and Dutch blueberries 90p-£1.00 a ½ lb. Larger apricots are 50-75p a lb (60-85p). Outspan minneolas are 15-25p each (18-25p). Cauliflowers are 25-35p a head (30-55p). Dutch pickling onions are 20-30p a lb, Dutch black and orange peppers, are both £1.50-1.80, and green peppers are 70p-£1.20 (£1.00-1.75). Hot weather has reduced the availability of lettuce, round 25-40p a head (22-32p) and Iceberg 50-60p (40-60p).

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	374-374½	225½-226
Opening	374¾-374½	226¼-226¾
Morning fix	374.30	225.672
Afternoon fix	374.15	226.759
Day's high	375-375½	
Day's low	374-374½	
Coins	**$ price**	**£ equivalent**
Maplelea	385-390	232-235
Britannia	385-390	232-235
US Eagle	385-390	232-235
Angel	382½-387½	230½-233¾
Krugerrand	373-376	225-227
New Sov.	88-89	53-53½
Old Sov.	88-89	53-53½
Noble Plat	506.25-514.25	304.60-309.40
Silver fix	**p/fine oz**	**US cts equiv**
Spot	315.15	523.40
3 months	326.20	535.30
6 months	337.05	546.80
12 months	357.45	568.75

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Sep	Nov	Sep	Nov
1650	124	129	13	32
1750	65	72	45	72
1850	28	35	106	133
Copper (Grade A)	**Calls**		**Puts**	
2450	171	162	35	93
2550	108	113	71	142
2650	63	70	124	203

LONDON FOX TRADED OPTIONS

Coffee	Sep	Nov	Sep	Nov
750	47	78	21	44
800	25	55	47	70
850	10	37	84	102
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
800	52	115	3	18
850	18	61	10	32
900	4	54	55	55

US MARKETS

A NON-EVENTFUL reaction by the US dollar to the GNP figure kept the metals markets steady, reports Drexel Burnham Lambert. Volume continued to be light. In the softs, sugar trading was mixed with prices gaining near the close. Arbitrage and commission houses were featured sellers in the cocoa. Origin selling sent coffee down to contract lows basis December. Cotton futures remained strong from commission house and trade activity. The grains had local short-covering in the soybeans. Commercial buying helped support the corn. Wheat trading was slow with prices closing nearly unchanged. The livestock markets were also quiet. Live hogs posted modest gains as the hot and humid weather in the US is wilting down hog runs. The energy complex gained early on technical buying but prices eased later in the day from afternoon trade selling.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low
Jul	373.7	374.9	0 0
Aug	373.7	375.0	376.3 373.5
Sep	375.0	377.3	0 0
Oct	377.9	378.3	380.5 377.5
Dec	380.2	383.5	384.7 381.7
Feb	385.2	387.5	388.0 387.3
Apr	390.1	391.6	392.0 392.0
Jun	394.2	395.7	0 0
Aug	398.2	399.8	0 0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low
Jul	500.1	501.2	505.5 499.0
Oct	502.9	503.9	508.3 502.5
Jan	506.1	507.1	0 0
Apr	509.6	510.8	0 0
Oct	513.1	514.1	0 0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low
Jul	521.7	522.4	523.5 522.5
Aug	521.6	523.0	0 0
Sep	526.5	527.5	529.0 525.0
Dec	538.5	539.9	541.0 537.5
Feb	541.7	543.1	0 0
Mar	549.7	551.2	550.5 548.5
May	557.2	558.7	0 0
Jul	565.0	566.5	567.5 564.5
Sep	572.8	574.3	573.5 573.5
Dec	584.2	585.8	0 0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low
Jul	112.70	112.00	113.30 112.10
Aug	112.90	111.60	0 0
Sep	112.20	111.55	113.20 111.30
Dec	108.20	107.20	108.90 107.50

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low
Sep	18.23	18.30	18.64 18.18
Oct	18.10	18.18	18.48 18.08
Nov	18.06	18.12	18.38 18.05
Dec	18.05	18.13	18.33 18.00
Jan	18.00	18.11	18.28 18.00
Feb	18.00	18.09	18.27 18.00
Mar	17.95	18.08	18.25 17.95
Apr	18.15	18.07	18.25 18.14
May	18.15	18.07	18.15 18.12
Jun	18.10	18.07	18.17 18.17

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low
Aug	4940	4946	5090 4935
Sep	5005	5016	5090 4985
Oct	5075	5095	5160 5060
Nov	5140	5158	5230 5140
Dec	5200	5233	5305 5200
Jan	5225	5243	5330 5225
Feb	5160	5145	5200 5130
Mar	4940	4948	5015 4940
Apr	4800	4798	4865 4820

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low
Sep	1280	1293	1290 1270
Dec	1311	1314	1315 1295
Mar	1320	1323	1330 1304
May	1330	1333	1331 1317
Jul	1345	1344	1351 1332
Sep	1358	1361	1356 1352
Dec	1377	1380	0 0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low
Sep	83.44	85.37	86.70 83.10
Dec	85.20	87.13	88.30 85.00
Mar	88.20	89.94	91.10 88.00
May	90.25	91.91	93.25 90.00
Jul	94.00	95.88	96.75 84.75
Sep	95.65	98.20	0 0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low
Jul	14.47	14.22	14.54 14.03
Jan	12.88	12.63	0 0
Mar	13.08	13.20	13.64 13.15
May	13.59	13.22	13.33 12.95
Jul	13.10	12.94	13.10 12.84
Oct	12.86	12.70	12.72 12.65

COTTON 50,000; cents/lbs

	Close	Previous	High/Low
Oct	75.00	74.94	75.65 75.00
Dec	75.00	75.76	75.75 75.61
Mar	76.65	76.33	77.25 76.40
May	76.90	76.46	77.45 76.53
Jul	77.40	76.40	77.45 76.45
Oct	69.00	69.15	69.10 68.90
Dec	66.66	66.94	67.00 66.65

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low
Sep	157.10	156.85	159.40 157.00
Nov	145.50	145.50	146.00 145.00
Jan	142.40	141.65	144.00 142.50
Mar	141.65	141.90	142.00 142.00
May	140.65	140.15	0 0
Sep	139.65	139.10	0 0

INDICES

REUTERS (Base: September 18 1931 = 100)			
July 26	July 25	mnth ago	yr ago
1923.1	1909.4	2027.3	1882.0

DOW JONES (Base: Dec. 31 1974 = 100)				
Spot	130.47	130.46	132.50	131.68
Futures	129.42	129.05	131.37	133.00

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low
Aug	668/0	681/6	670/0 663/4
Sep	616/4	612/2	619/0 612/0
Nov	600/0	596/6	603/0 595/0
Jan	608/2	604/2	610/4 603/0
Mar	618/4	613/2	618/4 613/4
May	623/0	617/0	623/0 618/0
Jul	622/2	618/4	623/0 620/0
Aug	608/0	603/0	0 0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low
Aug	18.81	18.89	19.00 18.79
Sep	19.03	19.13	19.25 19.00
Oct	19.23	19.33	19.40 19.20
Dec	19.62	19.87	19.80 19.55
Jan	19.85	19.85	19.92 19.85
Mar	20.20	20.35	20.30 20.20
May	20.50	20.50	20.66 20.50
Jul	20.75	20.75	20.95 20.75

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low
Aug	208.6	205.3	209.5 205.0
Sep	186.1	183.7	186.5 183.7
Oct	182.1	182.5	185.5 182.0
Dec	181.8	183.6	185.0 183.2
Jan	184.0	183.6	184.5 183.5
Mar	184.2	182.2	185.0 183.5
May	185.0	182.5	186.0 183.5
Jul	184.0	183.0	185.0 184.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low
Sep	232/4	229/4	233/4 229/4
Dec	229/4	226/0	230/0 226/4
Mar	236/2	232/6	236/4 233/0
May	240/6	237/0	240/6 237/4
Jul	241/2	238/4	241/2 237/0
Sep	234/0	230/0	234/0 231/0
Dec	226/0	224/2	224/4 224/0
Mar	233/4	233/0	233/4 233/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low
Sep	397/6	388/2	390/2 384/0
Dec	402/4	400/6	403/0 397/0
Mar	407/4	405/4	407/4 402/0
May	399/0	390/0	0 389/0
Jul	369/0	364/4	386/0 369/0
Sep	367/0	363/4	0 367/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low
Aug	72.52	72.77	72.90 72.00
Oct	73.90	73.90	0 0
Dec	75.45	75.77	75.70 75.05
Feb	74.27	73.90	73.82 73.65
Apr	73.55	73.57	73.92 73.45
Jun	73.35	73.75	73.45 73.15
Aug	70.80	70.80	70.75 70.00

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low
Aug	46.32	45.90	46.45 46.10
Oct	39.62	39.35	39.80 39.35
Dec	41.42	41.20	41.55 41.17
Feb	42.35	42.10	42.47 42.15
Apr	40.15	39.82	40.40 40.00
Jun	45.22	45.02	45.30 44.90
Jul	45.00	45.65	45.40 44.50
Aug	44.55	44.72	44.45 44.55

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low
Jul	28.92	27.10	27.55 26.85
Feb	40.63	40.52	40.87 40.20
Mar	40.85	40.52	40.97 40.25
May	41.00	41.60	41.00 41.25
Aug	41.02	40.82	41.70 41.50

LONDON STOCK EXCHANGE

Drug sector features firm equities

A UK stock market already very firm in response to Wall Street's overnight gain and an improvement in sterling closed strongly yesterday on the disclosure of a planned $27bn merger of two big US pharmaceutical companies.

The news of an definitive merger agreement between Bristol-Myers and Squibb in the US, coming hard on the heels of consummation of the Beecham-SmithKline Beckman merger, set British pharmaceutical stocks alight. There were substantial gains in Glaxo, Reckitt & Colman and Fisons, although some analysts said they were unconvinced of the likelihood of amalgamations involving UK drug firms.

Account Dealing Dates			
*First Dealings:	Jul 17	Jul 31	Aug 14
Option Declarations:	Jul 27	Aug 10	Aug 31
Last Dealings:	Jul 28	Aug 11	Sep 1
Account Day:	Aug 7	Aug 21	Sep 11

*New time dealings may take place from 8.00 am two business days earlier.

Market indices were also spurred ahead by a powerful advance to Reuters, the worldwide financial communications group, as Japanese and US buyers bought the stock.

These developments came only towards the end of the trading session and somewhat overshadowed the market's response to the main UK corporate news of the day. ICI awaited the interim statement with confidence but lost much of the early gain after the trading reports found a somewhat cautious response from analysts.

With Wall Street nearly thirty Dow points up overnight and the pound responding favourably to overnight judgements of the UK trade figures for June, the UK equity market opened in good form. Turnover was not particularly inspiring at first, however, and the UK market was content to wait for Wall Street to open.

The news of the planned merger in US pharmaceuticals, bringing substantial gains in the UK drug stocks which feature in the Footsie Index pushed the London market to the day's peak, a gain of nearly 23 points.

The market boiled over only slightly in late trading, and the final reading of 2,283.7 showed a net gain of 19.2 on the FT-SE index. Turnover increased, with Seaq volume jumping to 484.5m shares from Wednesday's 332.2m, but outside of the drug sectors and special feature stocks, business was fairly modest. Traders commented that the final mood of the market was calmer than some of the share price gains might suggest.

The Footsie Index is now within ten points of its latest post-Crash closing peak of 2,292.5, reached on July 18. Impetus was provided yesterday afternoon by a widening of the premium on the Footsie futures contract.

Among the day's special features was the arrival of a £73m rights issue from Automated Security Holdings. Salomon Brothers International announced another issue of covered warrants, this time of three year covered call warrants on BAA. Covered warrants have provided a significant feature of the market over the past week.

FINANCIAL TIMES STOCK INDICES

	July 27	July 26	July 25	July 24	July 21	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	87.07	86.70	86.34	86.34	86.40	88.04	89.29 (9/2)	83.75 (14/6)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.14	97.03	97.13	96.94	96.92	97.48	99.59 (15/3)	95.21 (13/6)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1902.5	1895.8	1895.0	1872.9	1892.9	1480.7	1903.2 (18/7)	1447.8 (3/1)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	193.2	193.0	194.8	193.2	193.0	204.5	208.0 (7/7)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2283.7	2264.5	2268.4	2250.1	2263.0	1841.3	2292.5 (18/7)	1782.0 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.30	4.28	4.28	4.31	4.27	4.59				
Earning Yld % (full)	10.04	9.99	10.02	10.09	9.98	11.64				
P/E Ratio (net)(*)	11.97	12.03	12.02	11.94	12.06	10.47				
SEAQ Bargains(5pm)	28,446	21,252	24,759	26,173	26,216	26,686				
Equity Turnover(£m)†	-	1093.74	1457.06	1265.12	1352.47	1084.82				
Equity Bargains†	-	25,879	27,976	30,046	30,336	27,415				
Shares Traded (mlt)†	-	341.4	518.8	468.4	450.1	454.4				

Basis 100 Govt Secs 15/10/26, Fixed Int 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83. o Nil 11.85

Ordinary Share Index, Hourly changes — Day's High 1904.8 Day's Low 1893.5

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1895.8	1895.5	1901.7	1899.3	1899.1	1902.5	1904.3	1901.5

FT-SE, Hourly changes — Day's High 2287.4 Day's Low 2274.2

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2278.5	2279.4	2282.2	2280.0	2280.2	2283.7	2287.4	2282.3

S.E. ACTIVITY

Indices	July 26	July 25
Gilt Edged Bargains	61.2	74.7
Equity Bargains	167.7	181.3
Equity Value	2210.7	2945.1
5 – Day average		
Gilt Edged Bargains	76.3	79.5
Equity Bargains	189.7	198.3
Equity Value	2731.8	2870.2

SE Activity 1974. †Excluding intra-market business. London Report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ASDA Group	[illegible]	[illegible]	[illegible]	[illegible]	1,000	357	+6	Legal & General	555	349	+2	Royal Insurance	621	418	-5
Allied-Lyons	[illegible]	[illegible]	[illegible]	[illegible]	1,200	371	+8	Lloyds Bank	1,400	344	-5	STC	2,400	365	-1
Amstrad	[illegible]	[illegible]	[illegible]	[illegible]	1,500	433	+12	LASMO	1,200	511	+7	Saatchi & Saatchi	523	313	
Argyll Group	[illegible]	[illegible]	[illegible]	[illegible]	2,200	166	-2	Lonrho	1,300	299	+3	Sainsbury	1,900	274	+7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	441	475	+5	Lucas	185	665		Scott & Newcastle	1,500	[illegible]	-1½
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,200	611	+4	MB Group	1,900	301	+4	Sears	4,100	[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	716	176	+1	MEPC	764	576	-2	Shell Transport	4,100	420	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3,300	338	+8	Marks & Spencer	2,500	206	+4½	Siebe	169	537	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	340	909	+9	Maxwell Comm.	5,100	203½	+6½	Slough Ests	258	365	-1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3,500	267	+½	Midland Bank	1,900	342		Smith & Nephew	4,100	141½	+1½
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,000	1425	+32	Nat. West. Bank	1,800	312	+3	SmithKline Beecham	5,100	541	-1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,188	192½	+1	Next	664	145	+2	Smiths Industries	5	519	-1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	378	312	-2	Northern Foods	369	343		Standard Chartered	229	520	-1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	513	354	-3	Pearl	365	501	+1	Storehouse	2,800	143	-2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,600	586	+4	Pearson	287	764	+18	Sun Alliance	921	300	+5½
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	173	1120	+1	P & O	901	693	+6	T&N	323	258	-1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,200	221	+3½	Pilkington	2,600	240	+2	TSB	696	106½	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	425	428	+3	Plessey	4,500	272	+1	Tarmac	1,600	333	+1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	852	529½	+2½	Polly Peck Intl	3,700	301	+2	Tate & Lyle	1,600	235	+5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	67	794	+5	Prudential	1,600	195½	+1½	Taylor Woodrow	68	[illegible]	-1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,800	221½	+2	RHM	5,000	465	+7	Tesco	1,600	194	+2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	289	172	+2	RMC	324	743	+5	THORN EMI	295	796	+8
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	543	748		RTZ	3,300	527	+9	Trafalgar House	1,700	366	+4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,400	283	+2	Racal	4,200	404	+12	Trusthouse Forte	2,600	356½	+8½
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	183	239	+2	Rank Org.	314	909	-5	Ultramar	1,400	770	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,300	1254	+1	Reckitt & Colman	174	1214	+18	Unilever	557	631	+2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	551	288		Redland	320	594	+3	United Biscuits	2,100	430	+1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,400	380	-8	Reed International	1,700	427	+7	Utd. Newspapers	301	460	+7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,100	345	+3	Reuters	2,400	830	+45	Wellcome	1,600	473	+6
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3,100	315	+5	Rolls Royce	5,100	184½	+1	Whitbread "A"	1,120	[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	444	598	+2	Rothmans	96	655	+3	Williams Hldgs	301	365	
Cons. Gold Fields	[illegible]	[illegible]	[illegible]	[illegible]	187	477	+3	Royal Bk of Scotland	90	404	+2	Wimpey	502	279	+2

Muted response to ICI

The interim report from ICI eventually failed to please the market, although the pre-tax profit figure was up to expectations. Analysts were slightly unhappy with the contribution to profits from non-recurring asset sales, and continued to take a cautious view of the trading outlook for the coming year.

The shares, which have followed a switchback course this week, were very firm ahead of yesterday's statement, and showed a gain of 11 at best, in the immediate wake of the interim statement. However, as further opinions trickled back to the market from the company's presentation to press and analysts, the gain in the shares was trimmed significantly.

At the close, ICI shares contrasted with the rest of the market, showing a net gain on the day of only 1 at 1254p. Turnover at 2.4m shares was substantially higher than earlier in the week and indicated significant profit-taking in the second half of the session. One leading UK firm of stockbrokers, close watchers of ICI, found the outcome, "disappointing", adding that, "the big questions is still the second half of this year and the prospects for 1990."

Busy Gas

British Gas shares were among the market's busiest, counters with some 14m shares changing hands, in what was described as a very active two-way market. The share price touched a 1989 high of 202½p, before easing back to close a net 1½ firmer at 201p.

Dealers and sector specialists said there was no single big story behind the good performance of the stock but that a combination of factors were responsible. First, according to traders, a bout of overseas buying, much of it from the US, had uncovered a stock shortage which worsened as the session wore on.

Second, the series of poor results from some of the US majors caused a series of switching operations, out of the two UK "majors", BP and Shell, and into British Gas.

Third, analysts said there was a growing awareness of the "green" factor in the energy sector with some of the so-called ethical funds very keen to increase their holdings in gas, highlighted as a "clean" energy source. BP were barely changed at 301p, on turnover of 7.1m while Shell held at 420p on 4.1m.

Racals bounce

The Racal twins staged a useful rally after their recent underperformance. The Racal companies' shares fell steeply last month after being excluded by the Government from applying for the new generation of cellular licences, the personal communication networks. Smith New Court, the UK securities house, was said to have given both stocks a strong push throughout the session.

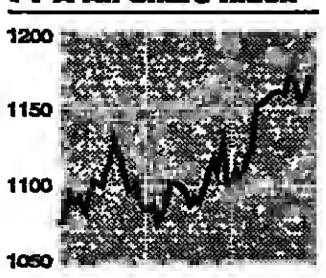
Mr Mike Styles, a member of Smith New Court's electronics team, said shares in the two companies had fallen a long way in recent weeks. "The fall has been overdone and with Racal Telecom's annual meeting scheduled for August 1 and that of Racal Electronics due on August 8, we are looking for some good news from both companies."

But in a comprehensive review of the telephone networks, another broking house, County NatWest WoodMac, says its "major recommendation is to sell Racal Telecom". The County team says Racal Telecom has only just begun to reflect the impact of further competition from the personal communicator licenses. "Further consideration of this issue is likely to keep the share price depressed," County warned.

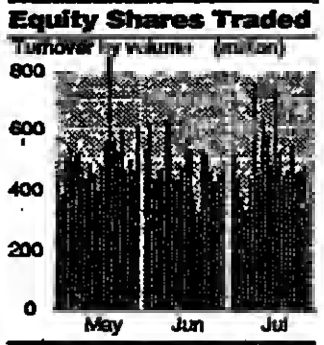
Racal Telecom shares moved up 8 to 376p albeit in relatively thin trading of 125,000 shares, while Racal Electronics jumped 12 to 444p on turnover of 4.2m.

Barclays and NatWest outperformed the other clearers ahead of the first of the interim reports from the sector — those of Lloyds today. Barclays rose 5 to 483p with turnover in the shares improving on recent levels and totalling 1.2m. In his preview of the interims Mr Ian Shelley at WI Carr, the stockbroker, highlights Barclays' attractions. "A bank in form and worth backing; strong growth in lending last year will benefit profit growth this year; overseas operations will recover after exceptional losses in 1989; the ratios are strong since the heavy rights last year and the group is only modestly exposed to LDCs."

FT-A All-Share Index



Equity Shares Traded



NatWest, unsettled by the stream of bad publicity over the Blue Arrow affair, which resulted in the resignations of Lord Boardman, the chairman, and three main board directors, rallied 3 to 317p.

Shares of Morgan Grenfell, the merchant bank, took off on another run, closing 15 higher at 315p as dealers reported further stories that a bid for the bank could be on the way; a 4.3 per cent stake in Morgan was sold by Dewey Warren last week at 300p a share and was thought to have been passed on to a Continental bank. Willis Faber, the insurance broking group, retains a 20.7 per cent stake in Morgan Grenfell while Deutsche Bank has a near 5 per cent holding and Prudential a 6.3 per cent holding.

There were widespread gains throughout insurances. Royal Insurance moved up 5½ to 300p after news of its expansion project into the Italian market with the £99m purchase of Lloyd Italico, a general insurance company, from La Fondiaria.

Speculation that Midsummer Leisure is about to make an offer for Leisure International saw the former drop 3 to 213p and the latter add 3 at 98p. Talk of a bid for Thames TV from Carlton Communications resurfaced, lifting Thames 12 to 514p and Carlton 4 to 796p.

In an active chemicals arena Hickson International made further strong progress, closing another 15 higher at a 1989 high of 267p; the group's interim figures are scheduled for August 10 and pre-tax are expected to come out around £20m compared with £12m.

Tilbury Group leapt 23 to 678p in response to late news that the group had sold part of its Linwood site in Scotland for £11m. Earlier in the day a buy recommendation from Mr Richard Hopewell at Swiss Bank Stockbroking had initiated a rise in the shares. Mr Hopewell reckons Tilbury is worth "at least 780p" and has lifted his current year profits forecast from £18m to £22m "as a reasonable reflection of what could be achieved by Tilbury in a hostile bid situation."

NSM raced up 9 to 124p amid speculation of imminent acquisitions.

Boots led the way among generally firmer stores with a gain of 7 to 286p on turnover of 1.8m shares. The stock was boosted by bullish news on current trading from the annual general meeting, but speculation over what the company will do with its bid for Greenfield retail group Ward White continues to unsettle the share price. Boots has already encountered public opposition from a number of institutional shareholders over its plans to take over Ward White.

At the moment most dealers believe Boots has got more to offer than the 400p a share currently on the table, but they doubt whether the company is willing to go much over 450p. This could still leave the door open for a rival bidder, as the market consensus appears to favour something around 500p a share as a knockout price.

Among the rare declines were Storehouse, already troubled by Monday's huge downgrading from broker James Capel, and yesterday further weakened by a profits warning issued at the annual general meeting by Sir Terence Conran, the group's chairman. Storehouse eventually closed 2 lighter at 143p on turnover of 2.8m shares.

News that Automated Security Holdings (ASH)are financing two expansion moves in the UK alarms business and reducing borrowings via a £73m rights issue — a one-for-three issue at 230p a share — upset ASH shares which retreated sharply to close a net 13 lower at 270p. ASH is paying £46m for RMC's Lander alarms division and £7.4m for Group 4 Alarms.

Control Techniques shares also came under strong downward pressure, dropping 11 to 233p in the wake of the proposed rights issue to raise £9.4m in the ratio of one-for-three at 195p. It revealed the purchase from Kode International of Moore Reed for £2m plus the assumption of indebtedness of £1.8m.

British Telecom held at 254p on turnover of 4.5m after the annual meeting at which the chairman spoke of facing "a competition policy and increasingly pervasive regulatory environment that positively discriminates in favour of new entrants to the market."

The prospect of imminent developments rewarding a renewed GEC/Siemens offer for Plessey saw the latter's shares manage a minor improvement at 272p on turnover of 4.5m — well up on recent levels. GEC were a fraction harder at 267p on 3.5m.

Food manufacturers continued to attract busy speculative demand. Dalgety remains the sector's most favoured bid target, the shares adding a further 12 at 433p on turnover of 1.5m.

Ranks Hovis Macdougall were also underpinned by takeover talk, as dealers reported the presence of a large buyer on inter dealer-broker network. Sunningdale, a company run by Sir James Goldsmith, Mr Jacob Rothschild and Mr Kerry Packer, has just under 30 per cent of RHM, yet the three financiers are already deeply involved in a £13bn bid for BAT Industries via their vehicle Hoylake.

The market's thinking is, said traders, that if the Hoylake bid runs into trouble with the Monopolies and Mergers Commission — and the likelihood of a referral has been widely talked of this week — then the Goldsmith/Rothschild/Packer axis may decide to drop the BATs bid and turn its acquisitive attentions to RHM. Although there was little evidence to back up such assertions, the talk was enough to send RHM shares to a high of 475p, before selling pressure pegged the price back to 465p, a gain of 7 on turnover of exactly 5m shares.

Food retailers were also in demand, most notably Sainsbury, which firmed 7 to 274p as nearly 2m shares changed hands.

BAA ran into unusual traded option activity after Salomon Brothers announced an issue of covered warrants, which will be priced today. The underlying security benefited and, although business was moderate, the shares gained 7½ to 367p.

BA traded in much heavier volume (7.3m shares) with buyers anticipating that the first-quarter results, due next Thursday, would make good reading. At the close, BA shares were 4 firmer at 207p.

Eurotunnel furthered their recovery 914p, up 14, while British Aerospace rebounded 11 to 714p. Jaguar, however, lost 8 more to 380p.

The first of a planned series of presentations to investors in the US aroused enthusiasm for WPP, up 15 further at 684p. Renewed UK institutional support amid suggestions that a leading securities house had substantially upgraded its asset valuation lifted UK Paper 7 to 259p but Wace suffered, losing 9 to 422p, as profits were taken after yesterday's superb interim results.

Publishers returned to fashion with speculative buyers favouring Pearson, 18 higher at 764p, for the group's break-up potential and Maxwell Communication, 6½ dearer at 203½p, in front of Monday's preliminary statement.

Signs that the recent spate of profit-taking had run its course encouraged fresh support of Courtaulds, 8 dearer at 371p.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 25

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (165).

BRITISH FUNDS (19) LOANS (1) AMERICANS (1) Colgate-Palmolive, BANKS (3) Allied Irish, Bank Ireland, Deutsche, Mitsubishi T & B, Union Dis., BREWERS (2) Marston Thompson, Merrydown Wine, BUILDINGS (5) CRH, Eve, Kingspan, Tilbury, Watts Blake, CHEMICALS (3) Hickson Int'l., Laporte, Novo Inds "B", STORES (8) Asprey, Body Shop, Etam, Jacques Vert, Kingfisher, Do. 8½pc Ln. 2000, Menzies (J.), Smith (W.H.) "A", ELECTRICALS (7) Borland Int'l., Dewhurst, Druck, Philips Lp., Plessey, Psion, Servomex, ENGINEERING (6) BM, Concentric, Hill & Smith, Tex Hldgs., Vickers, FOODS (8) Appleby Westward, Argyll, Ashley, Dalgety, Fii-Fyffes, Geest, Kwik Save, Sainsbury (J.), Sutherland, INDUSTRIALS (27) AIM, Assoc. Brit. Consits., Assoc. Nursing Servs., Avis Europe, BTR Nylex, Barry Wehmiller, Beaverco, Bimec Inds., Bluebird Toys, Brit. Vita, Brooks Serv., Claybithe, Cookson, Crean (J.), Dyson (J.& J.), Fisons, Flogas, Grafton, Hepworth, MB Grp., Pentland, Portmeirion Pots., Reliance Sec., Reuters, Scapa, TT Grp., Tomkins (F.H.) 5.5pc Cv. Pf., LEISURE (4) Castle Communs., Prism, Thames TV, Woodington, MOTORS (2) Central Mtr. Auctn., Volvo, NEWSPAPERS (1) Pearson, PAPERS (4) Clondalkin, MS, Research, U.K. Paper, WCRS, PROPERTY (7) SHIPPING (2) Ocean Trans., Runciman (W.), TEXTILES (3) Dawson Int'l., Early's of Witney, TRUSTS (49) OILS (4) Brit. Gas, Mid. & Scot. Res., Premier Cons., TR Energy, MINES (4) THIRD MARKET (2).

NEW LOWS (38).

AMERICANS (3) CANADIANS (3) BUILDINGS (1) Federated Housing, CHEMICALS (1) Porvair, STORES (4) Gebicol, Glamar, Storehouse, Upton (E.), ELECTRICALS (7) Ferrari, Holmes Prot., Northamber, Nth. Telecom, R & V Info Systs., Telecomputing, Wstn. Select., INDUSTRIALS (6) Fergebrook, Hyman, Minty, Savage, T.I.P Europe, Utd. Guarantee, MOTORS (1) Blotchley Mtr., NEWSPAPERS (1) Southnews, PAPERS (2) ATA Select, Craton lodge, PROPERTY (1) Baker Harris Saunders, TEXTILES (2) Lowe (F.H.), Tomkinsons, TRUSTS (1) OILS (2) Gulfstreams, Int. Pet. Crp., MINES (4)

APPOINTMENTS

British Telecom changes

■ BRITISH TELECOM has appointed Mr Peter Skinner as director of mobile communications from August 1. He was director network products and operations, and succeeds Mr John Carrington, who has been appointed president, BT Inc, looking after North American operations. Mr Robin Bomer, director of Government relations, has been appointed to the new post of director, business policy. He is succeeded by Mr Jonathan Rickford who was solicitor and chief legal adviser. Mr Colin Green succeeds Mr Rickford. Mr Green is promoted from director of the commercial department in the solicitor's office. The changes are from August 1.

■ Mr Tom Carruthers has joined BIMEC INDUSTRIES, and following the annual meeting on August 15 will be appointed group company secretary. He was company secretary at Stanton.

■ CENTRAL TELEVISION FACILITIES, part of Central Television, has appointed a management board. Chairman of the division is Mr Leslie Hill, with Central's director of operations as managing director, and Mr Peter Booth as deputy managing director. Other members of the board are Mr Kevin Betts, Mr Bob Carruthers, Mr John Lupton, Mr Paul Phayer and Mr Mike Snalam.

■ Mr Ross Stuart has been appointed plant director and general manager at COPELAND CORPORATION, Theale. He joins from Polarcold, where he was director and general manager.

■ Ms Cherrill Scheer has joined SCOTT HOWARD as director - group marketing services. She was marketing director of Hille International.

■ Mr Robert Poldermans has been appointed European practice director for the financial industry at ARTHUR D. LITTLE.

■ Mr John Trinder, a former director of GKN-Keller, has joined the board of ENGINEERING GEOLOGY as marketing director.

■ Mr Jeremy Colson has been appointed group director of finance of SOUTH WEST WATER. He was finance director of Bestwood.

■ Dr Henry Shirman has been appointed manufacturing director of J.C. BAMFORD EXCAVATORS. He was plant manager of the metal stamping and body construction plant at Ford's Halewood factory.

■ Mr Bryan Portman has been appointed chief executive, HILL SAMUEL LIFE ASSURANCE from August 21. He was corporate finance director of Lowndes Queensway. Hill Samuel Investment Advisers has appointed the following directors: Ms Anne Halloran, US marketing and client servicing; Mr Hamish Parker, European equities; Mr Tim Sanderson, Pacific Basin equities.

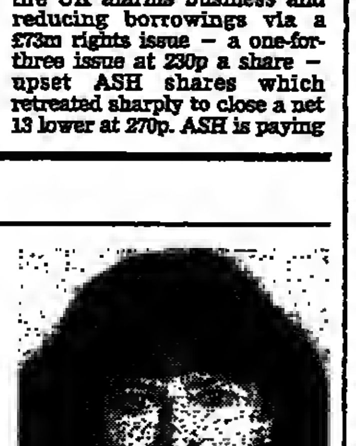
■ Mr Alan White has been appointed finance director of N. BROWN GROUP, Manchester, from August 1. He will continue as company secretary.

■ Mr Kevin Ball has been promoted from company secretary to director of finance of GEORGE, ORRIDGE, part of the Orridge Group.

■ Former managing director of Block Hotels, Mr David Stogdale, has been appointed group chief executive of WINDSOR HOTEL GROUP.

■ MILES 33 has formed a composition systems division of which Mr Mark Lunt has been appointed director. He was sales and marketing director. Mr Mark Gardner becomes director of operations, and Mr Terry Lockwood director of sales and marketing.

■ Mr John Little has been appointed marketing director of BARCLAYS FINANCIAL SERVICES. He was retail director of Barclays Bank's Pall Mall regional office covering central London.



SCANDINAVIAN BANK GROUP has appointed its first woman executive director. She is Ms Cynthia J. Kohlhry *(above)* who was senior director and group head at Marine Midland.

■ Mr John Herrin, deputy chairman of Crystalate Holdings, has been appointed a director of OXLEY DEVELOPMENTS CO.

■ Mr John Hignett has been appointed a non-executive director of TI GROUP. He is finance director of Glaxo Holdings, and is a former director-general of the panel on take-overs and mergers.

■ ERF TRUCKS has appointed Mr Bob Kyle as manufacturing director at Sandbach.

FT LAW REPORTS

Tax relief for film investor

ENSIGN TANKERS (LEASING) LTD v STOKES
Chancery Division: Mr Justice Millett: July 14 1989

A CORPORATE partner which invests in a limited partnership to obtain a tax advantage is entitled to first-year allowance for capital expenditure on plant if the partnership is trading in that it enters into a transaction which, though deliberately structured to achieve the tax advantage for partners, is genuinely commercial with a view of profit.

Mr Justice Millett so held when allowing an appeal by the taxpayer, Ensign Tankers (Leasing) Ltd, from a decision by Inland Revenue Commissioners that it was not entitled to tax relief on capital expenditure on plant.

Section 41(1) of the Finance Act 1971 provides: ". . . where — (a) a person carrying on a trade incurs capital expenditure on . . . plant . . . for the purposes of the trade, and (b) . . . the . . . plant belongs to him at some time during the chargeable period . . . there shall be made to him an allowance . . . (referred to as a first year allowance) . . ."

HIS LORDSHIP said that Ensign was a member of the Thomas Tilling group of companies.

On July 14 1980 it entered into a limited partnership, called the Victory Partnership, between Victory Film Production Ltd as general partner, and Ensign and four other companies as limited partners.

The partnership objects were stated to be the production and distribution of films on a commercial basis. Its capital was $3.25m, contributed by the limited partners. Ensign's contribution was $2.37m.

Victory Productions, owned by Lorimar Productions International (LPI) had conduct and management of the business.

LPI had made arrangements for production of a film called "Escape to Victory" at an estimated cost of $13m. It was to be distributed by an associated company, Lorimar Distribution (LD).

By agreement on July 14 LPI agreed to lend the partnership the additional $9.75m it needed to make and complete the film; the partnership acquired the unfinished film for $4.78m and LPI agreed to complete production on its behalf; the partnership retained ownership of the master negative but granted LD in perpetuity an exclusive licence to distribute outside the UK; and the net receipts of the film were payable to the partnership.

The partnership, though a sleeping partner in financial terms, thus acquired a 100 per cent interest in the venture, and paid 100 per cent of the total budgeted costs with the assistance of a 75 per cent loan from LPI.

That meant (i)that as loan creditor LPI would expect to recover its loan before the partnership recovered any capital, and (ii)that the partnership was provided with the element of "gearing" necessary to achieve the fiscal advantages the limited partners were seeking.

By borrowing 75 per cent of the capital cost of the film the partnership was able to spend four times its own capital in the provision of "plant" and to obtain first-year allowances equal to that expenditure.

As film receipts came in the "gearing" would have a corresponding but opposite effect. Until its indebtedness to LPI was repaid, the partnership would be taxed on receipt of income four times greater than what it was entitled to retain.

The way in which the scheme was intended to work was:

A partnership acted through the partners. A limited partnership and its partners, acted through the general partner. If it initiated a trading transaction, that was trading by the partnership. Each corporate partner's share of profits or losses constituted profits or losses of a separate trade carried on by the partner (see section 155, Income and Corporation Taxes Act 1970).

Availability of first year allowances would create an immediate trading loss by the partnership. In the inevitable absence of any film receipts during the year in which the expenditure was incurred, trading loss would be equal to expenditure.

That would not be recouped until income was received from exploitation of the film in following years. In the meantime Ensign's share of the partnership's trading loss could be surrendered to other companies in the Thomas Tilling group.

The initial fiscal advantages which Ensign sought to achieve, like the later fiscal disadvantages which could not be avoided, derived from the "gearing" effect obtained by the use of borrowed money to acquire assets for which first year allowances were available in a business where expenditure normally preceded income by two or three years.

In the case of "Outland," another full length film, the structure was similar, the partnership being Outland Productions.

Both films made a loss.

The tax inspector refused Ensign's claim under section 41(1) of the Finance Act 1971 for first year allowance on its capital expenditure on the master negatives. Its appeal was dismissed by the commissioners on the ground that neither of the partnerships was trading. Ensign now appealed.

The law was that: (1) A transaction in the nature of trade must possess a genuine commercial purpose. (2) A collateral or ulterior purpose to obtain a tax advantage did not "denature" an essentially commercial transaction. (3) Where commercial and fiscal purposes were present, questions of fact and degree were for the commissioners. The question was not which purpose was predominant, but whether the transaction could fairly be described as in the nature of trade. (4) The purpose or object of the transaction must not be confused with the taxpayer's motive to entering into it. The question was not "why" but "whether" he was trading. (5) The test was objective. (6) In considering the purpose of a transaction, its component parts must be viewed as a whole. (7) If the purpose was to make a profit, it did not cease to be a commercial transaction merely because those engaged to it had obtained finance from persons interested in achieving a fiscal advantage. (8) Some transactions might be so affected by fiscal considerations, that their shape or characteristic was no longer that of a trading transaction.

(9) Accordingly, the question was whether, in all the circumstances, the transaction was capable of being fairly regarded as a transaction in the nature of trade, albeit intended to secure a fiscal advantage.

The commissioners concluded that transactions entered into "with fiscal motives as their paramount object" were not trading transactions. They found that neither partnership was trading.

That decision betrayed a confusion between the taxpayer's motives and the purpose of the transaction.

The commissioners' findings were all concerned with Ensign's motivation for becoming a limited partner, and not with the partnerships' objects in entering into the transactions.

Their conclusion that the transactions were not commercial was not based on any finding that the financial terms were uncommercial, but on the absence of any commercial motive on Ensign's part.

Their reasoning and conclusions could not be supported.

From LPI's point of view, the partnership's participation was a means of financing part of the cost of the film. LPI set out to make the film before the partnership appeared on the scene. In the absence of a finding to the contrary, it must be taken to have done so commercially with a view to profit. LPI was not in business merely to break even after repaying its borrowings with interest. If it had made a profit, the partnership would have also.

Only one conclusion was possible. Viewed objectively, the transactions entered into by the partnerships were commercial transactions with a view of profit.

The questions of law arising from the facts found by the commissioners could be formulated as followed:

Where a partnership entered into a commercial transaction with a view to profit, could it fairly be regarded as carrying on a trade even if (i) it obtained the necessary finance from investors who were primarily motivated by fiscal advantages rather than commercial profit; and (ii) the transaction itself was deliberately structured to secure the fiscal advantage without ceasing to be commercial or jeopardising the prospects of profit?

That question must be answered in the affirmative. Neither factor alone, nor both together, could alter the true nature of the transaction. The commissioners must have misdirected themselves in one or both respects.

The only true and reasonable conclusion from the facts found by them was that the partnerships were trading.

The appeal was allowed.

For Ensign: John Gardiner QC and Roger Thomas (FJ Macintosh, BTR Industries).

For the Crown: Francis Ferris QC and Alan Moses (Inland Revenue solicitor).

Rachel Davies
Barrister

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	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
High Income						
American Income	6	52 23	52.77	56.14	-0.50	4 88
Gilts & Fixed Int	6	112.30	112.30	114.10	+0 90	8.40
High Inc Equity	6	137 70	140 50d	149.50	-0.80	4 25
Worldwide Bond	6	198.90	198 90	210.70	-2.30	4 00
Capital Growth						
American Growth	6	181.70	183 80	195 60	-0 90	.97
Asian Pacific	6	97.16	98 98d	105.30	-0 90	1 23
Assets & Earnings	6	164 00	167 60	178.30	+0 50	2.08
Capital Reserve Acc	0	86 77	86.77	86.83	-0.15	4 61
Commdity & Energy	6	103 90	103 90	111.20	+0.50	1.71
1992 Enterprise	6	59 15	60 31d	64.17	-0.02	2.81
European Capital	6	88.92	89 63	95 36	-0 41	.79
General	6	186.60	189.60	201.80	+0 90	2.23
International	6	46 43	47.10d	50 11	-0.15	1.00
Japan	6	111.90	111.95	119 70	-0 10	0.00
Mastertrust	6	87 18	87.18d	93.25	-0.12	1.82
UK Growth Acc	6	204 50	213.30	227.00	....	1.23
UK Growth Dist	6	136 40	142.30	151.40	....	1 00
US Emerging Cos	6	51.50	53 24	56.64	-0.75	0.00
Income & Growth	6	310.30	316.90	337.20	.....	3.04
Ethical	6	49.79	51.00d	54.26	....	1.84

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
Amer Inc & Growth	5	31.02	31.02	33 12	-0.14	3.30
European	5¼	66 82	67.00	71 52	-0 28	0.00
European Income	5¼	65 37	65.37d	69 79	-0 17	2.92
Exempt	1	836.2	836.2d	872 7	+4 40	2.92
Extra Income	5	45 31	45.31d	48.37	+0.25	4.37
F East Emerg Cos	5¼	47.08	47.34d	50 70	-0.4	0 68
Fund Inv Tst	5	129 8	128 8	137.5	+0.30	2.26

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
Smaller Cos	6	187 1	187 1d	200.1	-0.4	1.55
(Accum Units)	5	208.2	208.2	222.7	-0.4	1.55
Meridian Income	6	110 4	111.5d	119 2	+0 4	3.29
(Accum Units)	6	114 4	115.5	123.5	-0.4	3.29
Meridian Growth	6	122.4	123 2d	131.8	+0 7	1.90
Midland Personal Pension Unit Trust *						
British	6	61.16	61.81	65.75	+0.51	2.30
European Growth	6	60 26	60.38	64.23	-0.15	0.50
Gilt & Fixed	6	51.22	51.22	54 46	+0.29	9 12
Income	6	57.74	58.09	61.80	+0.39	3.39
Japan Growth	6	56.65	56.96	60.60	+0.32	0 00
Managed	6	55 92	57.71	63.39	....	1.88
Money Market	6	52.99	52.99	56 16	....	10.01
North American	6	57 16	58.04	63.74	-0.41	0.25
Midland PSAVCS Unit Trust *						
British	6	57.77	58.35	62.07	+0 46	2.33
European Growth	6	58 77	58 88	62.64	-0.14	0.55
Gilt & Fixed Inc	6	50.38	50.38	53 57	-0.29	9 13
Income	6	58.14	59 03	62.00	+0.41	3.39
Japan Growth	6	58 92	59.23	63.01	+0.33	0 00
Managed	6	56.02	56.79	60.42	-0.01	1.80
Money Market	6	51.06	51.06	54 12	....	10.01
North American	6	57.55	58.43	62.16	-0.41	0.23

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
Nth American Inc	5	64.15	64.15	68.16	-0.84	1.46
Nth American Acc	5	66 52	66.52	70.65	-0.86	1.46
Japan Inc	5	118.50	118 50	126 79	+0.38	0.00
Japan Acc	5	118 80	118 80	127.00	+0.38	0 00
UK High Inc Eq Inc	5	75 56	75.56d	79.33	+0 46	5.70
UK High Inc Eq Acc	5	83.72	88.72d	90.28	+0.51	5.79
Hong Kong Inc	5	38 97	38.97	41 55	-0 40	3.23
Hong Kong Acc	5	40.32	40.32	43.00	-0.41	3.23
Swiss Equities Inc	5	38 45	38.45	41.10	-0 15	1.17
Swiss Equities Acc	5	38 78	38 78	41.54	-0 15	1.17
W'wide Bond Inc	5	52.21	52.21	55.14	-0 25	5.87
W'wide Bond Acc	5	53.90	53.90	56 43	-0.26	5.87
Emerging Asia Inc	5	81 35	81.35	87 23	-0 63	0.00
Emerging Asia Acc	5	81.35	81.35	87.23	-0.63	0.00

Provident Mutual Unit Tst Mgrs Ltd (0905)H
25-31, Moorgate, London, EC2R 6BA. 01-588 3963

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
PM Equity Gth	5	121.3	123.5	131 3	+0 2	2.63
PM Income & Gth	5	103.1	107.1	113 4	+0 1	4.60
PM Nth Amer Gth	5	55 34	55.34	58.87	+0 07	1.20
PM European Gth	5	58.00	58.00	61 70	+0.51	0.72
PM Japan Gth	5	81.35	81.45	86.64	+1.12	0.28
PM Overseas Gth	5	54.64	54.69	58.12	+0.27	0.45

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

صكذا من الاصل

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OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

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	Bid Price	Offer Price	+ or –	Yield Gross
Pioneer Mutual Insurance Co Ltd				
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655				
Managed Fund	316.2	332.9		–
Man Pens Inc & Cap Fds	423.9	446.3		–
Money Fund	120.9	127.3		–
Pens Mngd Fd (Unit)	117.5	123.7		–
Pens Mngd Fd (Acc)	143.4	151.0		–
Pens FT30 Fd (Unit)	154.6	162.8		–
Pens FT30 Fd (Acc)	188.6	198.6		–
Pens O'seas MgFd(Unit)	76.2	80.3		–
Pens O'seas MgFd(Acc)	93.0	97.9		–
Pens Fxd Int Fd (Unit)	105.4	111.0		–
Pens Fnd Inc Fd (Acc)	128.6	135.4		–
Pens Deposit Fd (Unit)	105.8	111.4		–
Pens Deposit Fd (Acc)	129.1	135.9		–
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	124.0	111.0		–
Building Soc. Fd	172.0	182.0		–
Balanced	290.0	306.0		–
European	182.0	192.0		–
GT Managed	180.0	190.0		–
Gartmore Mngd	120.0	127.0		–
German	229.0	136.0		–
Gilt	187.0	197.0	1.0	–
Global	49.0	52.0		–
High Inc	126.0	133.0		–
International Equity	200.0	211.0		–
Japan	246.0	259.0	1.0	–
Managed	64.0	68.0		–
Property	283.0	298.0		–
O. W. Imperial Gold	147.0	155.0		–
UK Equity	372.0	392.0	1.0	–
Pension Funds				
American	155.0	164.0		–
Building Soc. Fd	173.0	183.0		–
Balanced	223.0	236.0		–
European	101.0	191.0		–
German	113.0	119.0		–
Gilt	156.0	165.0		–
International Equity	146.0	154.0		–

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (**)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN (**)

LUXEMBOURG (**)

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	1989 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
[illegible]	[illegible]	Exch. 10pc 1989	[illegible]	[illegible]	–	–
[illegible]	[illegible]	Exch 11pc 1989	[illegible]	[illegible]	11.06	13.22
[illegible]	[illegible]	Treas 5pc 1986–89	[illegible]	[illegible]	5.07	11.17
[illegible]	[illegible]	Exch 10¼pcCv '89	[illegible]	[illegible]	10.34	12.86
[illegible]	[illegible]	Treas 13pc 1990‡‡	[illegible]	[illegible]	12.96	12.13
[illegible]	[illegible]	Treas 2pc IL '90(84 6)	[illegible]	[illegible]	2.09	9.98
[illegible]	[illegible]	Exch 11pc 1990‡‡	[illegible]	[illegible]	11.07	12.13
[illegible]	[illegible]	Exch. 12½pc 1990	[illegible]	[illegible]	12.50	12.48
[illegible]	[illegible]	Treas. 3pc 1990	[illegible]	[illegible]	3.16	10.09
[illegible]	[illegible]	Treas 8¼pc 1987–90‡‡	[illegible]	[illegible]	8.59	11.75
[illegible]	[illegible]	Treas. 8pc Cv 1990 ‡‡	[illegible]	[illegible]	8.17	10.29
[illegible]	[illegible]	Treas. 10pcCv 1990	[illegible]	[illegible]	10.21	11.79
[illegible]	[illegible]	Exch 2½pc 1990	[illegible]	[illegible]	2.71	8.70
[illegible]	[illegible]	Treas 11¾pc 1991	[illegible]	[illegible]	11.74	11.61
[illegible]	[illegible]	Funding 5¾pc '87–91‡‡	[illegible]	[illegible]	6.19	10.45
[illegible]	[illegible]	Treas. 3pc 1991	[illegible]	[illegible]	3.53	9.13
[illegible]	[illegible]	Treas 10pc Cv '91 ‡‡	[illegible]	[illegible]	10.24	11.38
[illegible]	[illegible]	Exch. 11pc 1991	[illegible]	[illegible]	11.05	11.22
[illegible]	[illegible]	Treas. 8pc 1991	[illegible]	[illegible]	8.55	11.12
[illegible]	[illegible]	Treas 12¼pc 1992‡‡	[illegible]	[illegible]	12.25	10.82
[illegible]	[illegible]	Treas 10pc 1992	[illegible]	[illegible]	10.20	10.89
[illegible]	[illegible]	Treas. 8pc 1992 ‡‡	[illegible]	[illegible]	8.58	10.92
[illegible]	[illegible]	Treas 10½pc Cv 1992‡‡	[illegible]	[illegible]	10.59	10.83
[illegible]	[illegible]	Treas. 3pc 1992	[illegible]	[illegible]	3.54	9.12
[illegible]	[illegible]	Exch. 12¼pc '92	[illegible]	[illegible]	11.81	10.81
[illegible]	[illegible]	Exch 13½pc 1992	[illegible]	[illegible]	12.60	10.71
[illegible]	[illegible]	Treas 8¾pc 1993	[illegible]	[illegible]	8.86	10.59
[illegible]	[illegible]	Treas 10pc 1993‡‡	[illegible]	[illegible]	10.14	10.43
[illegible]	[illegible]	Treas 12½pc 1993‡‡	[illegible]	[illegible]	11.77	10.53
[illegible]	[illegible]	Funding 6pc 1993‡‡	[illegible]	[illegible]	6.95	10.10
[illegible]	[illegible]	Treas 13¾pc 1993‡‡	[illegible]	[illegible]	12.37	10.44
[illegible]	[illegible]	Treas. 8½pc 1994	[illegible]	[illegible]	9.12	10.40
[illegible]	[illegible]	Treas 14½pc 1994‡‡	[illegible]	[illegible]	12.59	10.28
[illegible]	[illegible]	Exch 13½pc 1994	[illegible]	[illegible]	12.13	10.41
[illegible]	[illegible]	Treas. 10pc Ln. 1994‡‡	[illegible]	[illegible]	10.09	10.23

Five to Fifteen Years

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

UNIT TRUST NOTES

LONDON SHARE SERVICE

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AMERICANS—Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
20⅝	16⅞	FPL Group 1c	19⅞	–⅛	$2.[illegible]	–	7.3
32⅞	27⅝	Ford Motor $1	30⅛	–⅛	$3.[illegible]	–	6.3
45[illegible]	30⅞	GATX 62½c	43½	–⅛	$2.[illegible]	–	2.9
35¼	24¼	Gen. Elect. 63c	34⅞	+⅛	$2.[illegible]	–	3.0
568p	460p	General Host Corp $1	460p	–14	[illegible]	–	4.1
39⅛	18¼	Gillette $1	26[illegible]	–½	[illegible]	–	2.3
987p	616p	Gt Am First Svgs Bk $1	769p	–18	[illegible]	–	4.9
23⅝	16½	Greyhound $1½	20⅞	.....	$1.[illegible]	–	4.1
14¼	847p	Hasbro Inc 50c	13	.....	[illegible]	–	0.8
54⅞	32¾	Honeywell $1½	52⅝	–⅛	$2.[illegible]	–	2.5
21¼	15¼	Houston Inds.	20½	–⅛	$2.[illegible]	–	9.1
74⅞	63⅛	IBM Corpn $1¼	67⅞	–[illegible]	$4.[illegible]	–	4.5
60p	45p	Image Storage/R.Sys.1c	55p	.....	–	–	–
28⅞	18¾	Ingersoll-Rand $2	27⅞	+⅛	$1.20	–	2.7
33	22½	Lockheed Crpn. $1	29⅛	–⅛	$1.60	–	3.5
22⅞	15⅛	Lone Star Inds $1	20	+⅛	$1.90	–	6.0
25	17½	Louisiana Land 15c	23¼	+⅛	$1.00	–	2.7
17	11½	Lowe's 50c	15⅛	.....	48c	–	1.9
25⅛	15⅞	Manuf. Hanover $1	24¼	–¼	$3.28	–	8.4
20¾	13⅞	Merrill Lynch $1	20¾	+⅛	$1.00	–	3.1
2253p	1910p	Molex Inc	2035p	–37	3.2c	–	–
27⅞	18¼	Morgan (JP) $2½	22¼	–¼	$1.66	–	4.6
54½	36¼	NYNEX $1	45¼	–¼	$4.36	–	6.0
24⅞	18¼	PHH Corp.	23⅛	+½	$1.12	–	3.1
259p	180p	Pacific Agr.	180p	.....	–	–	–
27¼	19	Pacificorp $3¼	24⅞	–⅛	$2.76	–	6.7
27¼	16⅞	Pacific Telesis 10c	25½	+⅛	$1.88	–	4.7
22⅛	15¼	Pall Corp. 25c	20	–⅛	48c	–	1.5
55⅛	39⅞	Pennzoil 83 1/3c	48⅛	–1	$3.00	–	3.9
25½	17⅛	Premark Intl.	23⅛	+⅛	84c	–	2.3
42¼	28¾	Quaker Oats $5	40⅛	+⅛	$1.20	–	1.9
32⅛	23½	Rep NY Corpn $5	29⅞	–½	$1.28	–	2.8
15⅛	11[illegible]	Rockwell Intl. $1	13[illegible]	–⅛	78c	–	3.6
35	21⅛	Southwestern Bell $1	33	+½	$2.60	–	5.0
27⅞	17⅞	Sun Co. Inc. $1	22⅛	–⅛	$1.80	–	5.2
30¼	22[illegible]	TRW Inc. 62½c	29¼	–⅛	$1.72	–	3.7
22¼	14⅞	TW Services $5	20¼	–⅛	10c	–	0.3
36⅞	26¾	Tenneco $5	35⅛	+⅛	$3.04	–	5.4
35⅞	28	Texaco $6.25	31⅞	–⅛	$3.00	–	6.0
28[illegible]	21⅛	Texas Instr. $1	23½	+⅛	72c	–	1.9
117[illegible]	58⅞	Time Inc $1	84⅛	+⅛	$1.00	–	0.7
18[illegible]	15⅛	TRINOVA Corp.	16⅛	–⅛	64c	–	2.5
24⅞	16	USX $1	21⅞	+⅛	$1.40	–	4.2
215p	126p	Unitab	215p	.....	–	–	–
33⅞	22⅛	Utd. Technologies	33¼	–¼	$1.60	–	3.0
158p	128p	Utilitech Inc.	137p	.....	–	–	–
46½	31½	US West	42¼	–⅛	$3.76	–	5.6
36⅛	22⅝	Waste Management $1	34⅞	–⅛	48c	–	0.9
20¼	13½	Whirlpool $1	18¾	–¼	$1.10	–	3.7
24⅞	16⅞	Whitman Corp.	21⅞	–⅛	$1.02	–	3.0
36⅞	28⅛	Woolworth $3½	33⅞	–⅛	$1.88	–	3.6

CANADIANS

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
168p	129p	A&M Gold Corp	153p	+5	–	–	–
25½p	4½p	Abbot Energy Corp.	23⅞p	–½	–	–	–
16⅞	902p	Amer. Barrick Res.	15¼	–½	–	–	–
19⅞p	10½p	Armeno	17⅞p	+2¼	–	–	–
344p	94p	Asiamerica Hldgs	299p	+16	–	–	–
33¼p	8½p	Augmitto Expln.	19p	–½	–	–	–
17¼	12⅞	Bk. Montreal	17¼	.....	$2.12	–	6.3
10⅞	655p	Bk Nova Scot.	948p	+2	92c	–	5.0
22	17	BCE	21⅛	–⅛	$2.44	–	5.9
848p	570p	Bow Valley	713p	+5	40c	–	2.9
16⅞	12¼	Brascan	15⅛	.....	88c	–	2.9
228p	144p	Bramalea Res.	153p	+1	10c	–	3.4

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

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INSURANCES—Contd

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

27	10	Do. Wrnts. ...... y	26	.....	
10¼	5	Wilton Group 1p... y	8	-¼	

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- ♦ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ✱ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ∥ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official [illegible] cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... y	97	.....
Craig & Rose £1.. y	830	.....
Finlay Pkg. 5p.... y	88	+2
Holt (Jos) 25p..... y	1343	+18

IRISH

Cap. 8½% Ln. 1991.. y	£98½	.....
9pc Cap Ln. 1996.. y	£101⅝	+⅛
Fin. 13% 97/02.. y	£122	+⅛
Arnotts.............. y	422	+2
Carrol (P.J.)........ y	155	+5
Hall (R. & H.)..... y	161	.....
Heiton Hldgs....... y	86	+1
Irish Ropes.......... y	229	+15
United Drug......... y	138	+3

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons...... y	38
Amstrad...... y	11
BAT...... y	80
BOC Grp...... y	42
BSR...... y	6½
BTR...... y	32
Barclays...... y	42
Beecham...... y	50
Blue Circle...... y	48
Boots...... y	25
Bowaters...... y	44
Brit Aerospace...... y	52
British Steel...... y	7½
Brit. Telecom...... y	21
Burton Ord...... y	18
Cadburys...... y	46
Charter Cons...... y	48
Comm Union...... y	32
Courtaulds...... y	30
FKI Babcock...... y	14
FNFC...... y	22
Gen Accident...... y	85
GEC...... y	20
Glaxo...... y	110
Grand Met...... y	48
GUS 'A'...... y	90
Guardian...... y	18
GKN...... y	34
Hanson...... y	16
Hawker Sidd...... y	60
ICI...... y	100
Jaguar...... y	28
Ladbroke...... y	28
Legal & Gen...... y	26
Lex Service...... y	33
Lloyds Bank...... y	29
Lucas Inds...... y	50
Marks & Spencer...... y	15
Midland Bk...... y	30
Morgan Grenfell...... y	24
Nat West Bk...... y	25
P & O Dfd...... y	55
Plessey...... y	22
Polly Peck...... y	26
Racal Elect...... y	48
RHM...... y	42
Rank Org Ord...... y	80
Reed Intnl...... y	34
STC...... y	32
Sears...... y	10
TI...... y	38
TSB...... y	10
Tesco...... y	14
Thorn EMI...... y	58
Trust Houses...... y	24
T&N...... y	18
Unilever...... y	46
Vickers...... y	18
Wellcome...... y	42

Property

Brit Land...... y	32
Land Securities...... y	52
MEPC...... y	50
Randsworth...... y	28

Oils

Brit Petroleum...... y	21
Burmah Oil...... y	50
Cairn...... y	35
Charterhall...... y	2½
Premier...... y	9
Shell...... y	32
Ultramar...... y	26

Mines

Cons Gold...... y	150
Lonrho...... y	30
RTZ...... y	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

US dollar loses ground

THE US dollar finished down from Wednesday's closing levels but np from yesterday's lows. The US unit was pushed lower initially on news that US second quarter provisional Gross National Product rose by just 1.7 per cent from e downward revision in the first quarter increase to 3.7 per cent from 4.4 per cent.

The dollar's softer tone was firmly established earlier in the day as trading in the Far East underlined a bearish sentiment which suggests that the US Federal Reserve is pursuing a policy of looser monetary conditions. However, the US unit appears to be well oversold according to some traders, which raises the prospect of some sort of technical rebound. The more moderate rate of decline in the dollar is probably in keeping with the Fed's desire to see the US unit lower but not at the expense of e de-stabilising rapid decline.

In additioo, iovestors remained wary about the level of US inflation. This was measured at showing a 4.9 per cent increase in the second quarter compared with 4.0 per cent in the first quarter.

The doller closed et DM1.8690 from DM1.8740 and Y138.85 from Y140.55. Elsewhere, it finished et SFr1.6075 from SFr1.6130 and FFr6.3300 compared with FFr6.3475. On Bank of England figures, the dollar's exchange rate index fell to 69.1 from 69.7 on Wednesday.

The D-Mark continned to suffer from the effects of positions built up before the results of the elections in Japan. Investors continued to take profits, and pushed the D-Mark lower.

Sterling finished at its best level for two months on its exchange rate index. The latter rose to 93.4 from 93.0 on Wednesday. The pound is regarded hy many investors as offering a very ettractive packege. UK interest rates are unlikely to fall in the near term while the dollar and the yen are hoth regarded as a poor bet for investors at the moment. Furthermore, tha pound is unlikely to come under pressure from the release of further economic data in the short-term, since none is due for at least another week.

The pound closed at $1.6600 from $1.6500 and DM3.1025 against DM3.0925. It hroke through resistance at DM3.0950 for the second day running, but this time, investors expect the pound to establish itself above this level. Elsewhere, it finished et SFr2.6675 from SFr2.6625 and FFr10.5075 compared with FFr10.4725.

Elsewhere, the D-Mark lost ground against the yen, as the latter recovered on profit taking. The D-Mark finished in London at Y74.29 from Y75.01 on Wednesday.

Later trading in New York saw the dollar recover on continued short-covering. Much of the recovery was based on short term investors covering positions after the US nnit failed to prolong an initial weaker trend.

£ IN NEW YORK

July 27	Latest	Previous Close
£ Spot	1.6580-1.6590	1.6585-1.6595
1 month	0.66-0.65pm	0.68-0.66pm
3 months	1.95-1.92pm	2.02-1.97pm
12 months	7.40-7.30pm	7.10-6.95pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	July.27	Previous
8.30 am	93.2	92.5
9.00 am	93.2	92.7
10.00 am	93.3	92.6
11.00 am	93.3	92.6
Noon	93.4	92.9
1.00 pm	93.5	93.1
2.00 pm	93.4	93.1
3.00 pm	93.3	93.0
4.00 pm	93.4	93.0

CURRENCY RATES

July.27	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling	-	1.28754	1.49636
U.S Dollar	7	1.27608	1.11204
Canadian $	12.39	1.51394	1.31532
Austrian Sch.	5	16.8991	14.6188
Belgian Franc	7.75	50.3190	43.4834
Danish Krone	9½	9.33516	8.07393
Deutsche Mark	5.00	2.40197	2.07673
Neth. Guilder	6.00	2.71039	2.34250
French Franc	9½	8.14522	7.03473
Italian Lira	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]
Norway Krone	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]
Swedish Krona	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]
Greek Drach.	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	N/A	0.778246

* Sterling quoted in terms of SDR and ECU per £. † European Commission Calculations. All SDR rates are for July.26

CURRENCY MOVEMENTS

July.27	Bank of England Index	Morgan** Guaranty Changes %
Sterling	93.4	-18.3
U.S. Dollar	69.1	-8.7
Canadian Dollar	103.7	+0.3
Austrian Schilling	106.6	+9.8
Belgian Franc	106.2	-5.9
Danish Krone	103.7	-1.1
Deutsche Mark	113.2	+20.8
Swiss Franc	107.8	-16.9
Guilder	110.5	+13.5
French Franc	99.7	-15.2
Lira	99.9	-18.3
Yen	140.0	+69.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100)**Rates are for July 26

OTHER CURRENCIES

July.27	£	$
Argentina	[illegible]	[illegible]
Australia	[illegible]	[illegible]
Brazil	[illegible]	[illegible]
Finland	[illegible]	[illegible]
Greece	[illegible]	[illegible]
Hong Kong	[illegible]	[illegible]
Iran	119.00*	72.00*
Korea(Sth)	1101.45-1110.35	664.70-670.10
Kuwait	0.48720-0.48850	0.29440-0.29510
Luxembourg	64.90-65.00	39.10-39.20
Malaysia	4.3975-4.4090	2.6605-2.6635
Mexico	4182.65-4201.75	2525.00-2535.00
N. Zealand	2.8290-2.8350	1.7080-1.7110
Saudi Ar.	6.2065-6.2095	3.7500-3.7510
Singapore	3.2350-3.2420	1.9545-1.9565
S. Af (Cm)	4.3910-4.4025	2.6540-2.6570
S. Af (Fn)	6.8015-6.9435	4.1070-4.1930
Taiwan	42.65-42.70	25.75-25.80
U.A.E.	6.0770-6.0805	3.6720-3.6730

*Selling rate

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July.27	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.4834	+2.41	+1.04	±1.5424
Danish Krone	7.85212	8.07393	+2.82	+1.45	±1.6419
German D-Mark	2.05853	2.07673	+0.88	-0.49	±1.1019
French Franc	6.90403	7.03473	+1.89	+0.52	±1.3719
Dutch Guilder	2.31943	2.34250	+0.99	-0.38	±1.5019
Irish Punt	0.768411	0.778246	+1.28	-0.09	±1.6689
Italian Lira	1483.58	1495.02	+0.77	+0.03	±4.0815
Spanish Peseta	130.000	130.364	+0.28	-	-

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

July.27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6540-1.6660	1.6595-1.6605	0.69-0.66cpm	4.88	2.02-1.98pm	4.82
Canada	1.9610-1.9670	1.9610-1.9620	0.31-0.21cpm	1.59	0.84-0.70pm	1.57
Netherlands	3.49¼-3.50½	3.49¼-3.50¼	2-1⅞cpm	6.65	5⅛-5⅛pm	6.36
Belgium	64.70-65.10	64.90-65.00	31-28cpm	5.45	88-83pm	5.27
Denmark	12.03¾-12.09	12.06-12.07	5⅜-5⅜orepm	5.53	16¾-16¼pm	5.49
Ireland	1.1595-1.1655	1.1630-1.1640	0.45-0.40ppm	4.38	1.25-1.15pm	4.13
W. Germany	3.09¼-3.10¾	3.10-3.10½	1⅞-1¾pfpm	7.01	4⅞-4⅛pm	5.56
Portugal	258.65-260.30	259.30-260.30	7-27cdis	-0.79	104-157dis	-2.01
Spain	194.10-195.30	194.70-195.00	8-15cdis	-0.71	29-47dis	-0.78
Italy	2226½-2237½	2232¼-2233¼	4-2lirepm	1.61	9-7pm	1.43
Norway	11.36¼-11.40¾	11.38¾-11.39¾	2⅞-2⅜orepm	2.90	7⅛-6⅞pm	2.41
France	10.48½-10.52¼	10.50¼-10.51¼	4⅛-4⅛cpm	4.78	12-11⅝pm	4.50
Sweden	10.59½-10.62¼	10.60¾-10.61¾	1⅞-1⅝cpm	1.98	4⅞-4⅛pm	1.74
Japan	230-231¼	230-231	1⅞-1⅞ypm	8.13	4⅞-4⅝pm	8.13
Austria	21.80-21.85	21.82-21.85	11⅝-9⅞gropm	5.84	32⅞-30¼pm	5.77
Switzerland	2.66¼-2.67½	2.66¼-2.67¼	1½-1⅜cpm	6.47	4⅞-4¼pm	6.47
ECU	1.4825-1.4960	1.4950-1.4960	0.60-0.57cpm	4.69	1.66-1.61pm	4.37

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 65.10-65.20 Six-month forward dollar 3.89-3.84cpm 12 months 7.15-7.05cpm.

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

July.27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6540-1.6660	1.6595-1.6605	0.69-0.66cpm	4.88	2.02-1.98pm	4.82
Ireland†	1.4225-1.4295	1.4250-1.4260	0.10-0.05cpm	0.63	0.35-0.25pm	0.84
Canada	1.1820-1.1845	1.1830-1.1840	0.31-0.34cdis	-3.30	0.95-1.00dis	-3.30
Netherlands	2.1010-2.1160	2.1070-2.1080	0.33-0.31cpm	1.82	0.88-0.84pm	1.63
Belgium	39.00-39.30	39.10-39.20	2.50-1.00cpm	0.54	4.50-2.00pm	0.33
Denmark	7.25-7.29	7.26¼-7.27	0.10-0.35oredis	-0.37	0.60-1.00dis	-0.44
W. Germany	1.8600-1.8765	1.8685-1.8695	0.32-0.30pfpm	1.99	0.89-0.85pm	1.86
Portugal	156.50-156.90	156.80-156.90	60-80cdis	-5.37	255-285dis	-6.90
Spain	117.05-117.65	117.45-117.55	45-55cdis	-5.11	155-165dis	-5.45
Italy	1342-1348½	1344¼-1345¼	3.70-4.20liredis	-3.52	11.50-12.20dis	-3.52
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 39.20-39.30.

EURO-CURRENCY INTEREST RATES

July.27	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Fin)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Con)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years [illegible] per cent; three years [illegible] per cent; four years [illegible] per cent; five years [illegible] per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

July.27	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.660	3.103	230.5	10.51	2.668	3.498	2233	1.962	64.95
$	0.602	1	1.869	138.9	6.331	1.607	2.107	1345	1.182	39.13
DM	0.322	0.535	1	74.28	3.387	0.860	1.127	719.6	0.632	20.93
YEN	4.338	7.202	13.46	1000.	45.60	11.57	15.18	9688	8.512	281.0
F Fr.	0.951	1.579	2.952	219.3	10.	2.539	3.328	2125	1.867	61.80
S Fr.	0.375	0.622	1.163	86.39	3.939	1	1.311	837.0	0.735	24.34
H Fl.	0.286	0.475	0.887	65.89	3.005	0.763	1	638.4	0.561	18.57
Lira	0.448	0.743	1.390	103.2	4.707	1.195	1.567	1000.	0.879	29.09
C $	0.510	0.846	1.582	117.5	5.357	1.360	1.783	1138	1	33.10
B Fr.	1.540	2.556	4.778	354.9	16.18	4.108	5.386	3438	3.021	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Bullish tone retained

SHORT STERLING futures finished down from the day's highs in Liffe trading yesterday but up from the close on Wednesday. The September contract opened higher at 86.48 from 86.42, and touched e high of 86.54 before slipping back to 86.45 at the close. The September contract is still regarded as being expensive in relation to the underlying cash price, and any opportunity to relate optimism into position taking is likely to show through in the December contract. Here the price rose hy eight ticks to 87.35, thos increasing the spread between September and December contracts.

US Treasury bond futures appeared to be motivated hy the smaller than expected rise in US second qnarter GNP data, preferring to ignore the underlying rise in inflation as measured by the implicit price deflator. Despite this, the mood of the market remains bullish, given recent indications that the US Federal Reserve is allowing interest rates to fall further. The September US Treasury bond contract rose to 98-00 from 97-27 et the start and 97-25 on Wednesday.

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
93	3-48	3-51	0-02	0-21
94	2-49	2-63	0-03	0-33
95	1-54	2-18	0-08	0-52
96	1-03	1-42	0-21	1-12
97	0-32	1-10	0-50	1-44
98	0-13	0-52	1-31	2-22
99	0-05	0-34	2-23	3-04

Estimated volume total, Calls 3559 Puts 2397. Previous day's open int. Calls 17569 Puts 24066

LIFFE US TREASURY BOND FUTURES OPTIONS $100,000 64ths of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
92	6-02	6-11	0-02	0-23
94	4-03	4-32	0-03	0-44
96	2-10	3-03	0-10	1-15
98	0-49	1-58	0-49	2-06
100	0-13	1-07	2-13	3-19
102	0-03	0-39	4-03	4-51
104	0-02	0-21	6-02	6-33

Estimated volume total, Calls 132 Puts 29. Previous day's open int. Calls 2846 Puts 3147

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
9400	1.65	1.90	0.03	0.29
9450	1.18	1.53	0.06	0.42
9500	0.75	1.21	0.13	0.60
9550	0.42	0.93	0.30	0.82
9600	0.20	0.69	0.58	1.08
9650	0.08	0.50	0.96	1.39
9700	0.03	0.35	1.41	1.74

Estimated volume total, Calls 716 Puts 1494. Previous day's open int. Calls 12447 Puts 12977

LIFFE $/S OPTIONS £25,000 (cents per £1)

[illegible]

LIFFE EURODOLLAR OPTIONS $1m points of 100%

[illegible]

LIFFE SHORT STERLING OPTIONS £500,000 points of 100%

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT £50,000 32nds of 100%; 7-10 YEAR 9% NOTIONAL GILT £50,000 32nds of 100%; US TREASURY BONDS 8% $100,000 32nds of 100%; 6% NOTIONAL GERMAN GOVT. BOND DM250,000 100ths of 100%; 6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%; THREE MONTH STERLING £500,000 points of 100%; THREE MONTH EURODOLLAR $1m points of 100%; THREE MONTH EUROMARK DM1m points of 100%; FT-SE 100 INDEX £25 per full index point

[illegible]

Estimated volume 2288 (1671). Previous day's open int. 19440 (19240)

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6600	1.6533	1.6400	1.5914	1.5890

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Sep	1.6462	1.6550	1.6460	1.6468
Dec	1.6270	1.6390	1.6270	1.6276
Mar	1.6100	1.6170	1.6100	1.6108
Jun	1.6000	1.6000	-	1.5958

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%; JAPANESE YEN (IMM) Y12.5m $ per Y100; DEUTSCHE MARK (IMM) DM125,000 $ per DM; U.S. TREASURY BILLS (IMM) $1m points of 100%; THREE-MONTH EURODOLLAR (IMM) $1m points of 100%; SWISS FRANC (IMM) SFr 125,000 $ per SFr; STANDARD & POORS 500 INDEX $500 times index

[illegible]

EUROPEAN OPTIONS EXCHANGE

Series		Oct. 89 Vol	Oct. 89 Last	Jan. 90 Vol	Jan. 90 Last	Apr. 90 Vol	Apr. 90 Last	Stock
ABN C	Fl. 45	2255	2.40	601	3.40	19	4	Fl. 46.20
ABN P	Fl. 45	947	1.60	81	2	-	-	Fl. 46.20
Aegon C	Fl. 100	452	8.80	13	11.50	-	-	Fl. 107.60
Aegon P	Fl. 110	98	4.80	1	5.50	-	-	Fl. 107.60
Ahold C	Fl. 125	147	9.30	21	12	-	-	Fl. 130.90
Ahold P	Fl. 130	3	3.80	108	6.50	-	-	Fl. 130.90
Akzo C	Fl. 150	1641	4.20	118	7.40	6	10	Fl. 143.40
Akzo P	Fl. 150	181	7.50	40	9.40	25	10.20	Fl. 143.40
Amev C	Fl. 60	241	1.20	67	2.60	14	3	Fl. 56.40
Amev P	Fl. 50	132	0.60	9	1.50	-	-	Fl. 56.40
Amro C	Fl. 90	830	4.20 a	21	5.90	20	7.10 b	Fl. 92.10
Amro P	Fl. 80	102	0.60	-	-	-	-	Fl. 92.10
DAF N.V. C	Fl. 60	214	1.50	43	2.90	6	4	Fl. 54.90
DAF N.V. P	Fl. 55	161	2	10	3	-	-	Fl. 54.90
N.V. DSM C	Fl. 140	438	4	22	6.50	1	8.20	Fl. 130.20
N.V. DSM P	Fl. 130	99	6 b	-	-	-	-	Fl. 130.20
Gist-Broc. C	Fl. 35	254	1.60	525	3	34	9.10	Fl. 33.40
Gist-Broc. P	Fl. 35	34	2.50	110	3.50	5	4	Fl. 33.40
Heineken C	Fl. 130	203	8.80	26	11	2	13	Fl. 134.50
Heineken P	Fl. 130	78	3.50	21	5.10 a	-	-	Fl. 134.50
Hoogovens C	Fl. 125	547	5.10	55	9.20	-	-	Fl. 112.20
Hoogovens P	Fl. 110	306	6.80	7	9.20	-	-	Fl. 112.20
KLM C	Fl. 50	806	3.60	57	5.60	1	6.60	Fl. 52.60
KLM P	Fl. 45	529	0.70	-	-	100	1.70	Fl. 52.60
KNP C	Fl. 60	163	1.80	38	2.70 b	20	4	Fl. 54.80
KNP P	Fl. 55	287	2.50	3	3.50 a	-	-	Fl. 54.80
NEDLLOYD C	Fl. 470	84	15	4	28	-	-	Fl. 450.80
Nat. Ned. C	Fl. 65	738	3.70	225	5.30	3	6.50	Fl. 67
Nat. Ned. P	Fl. 65	528	1.80	10	2.20	14	2.50	Fl. 67
Philips C	Fl. 45	2803	2.10	1694	3.20	54	4 b	Fl. 43
Philips P	Fl. 40	665	1	76	1.90	73	2.60	Fl. 43
Royal Dutch C	Fl. 150	634	2.10 a	50	4.10	-	-	Fl. 141.70
Royal Dutch P	Fl. 140	295	4.20	52	5.50	-	-	Fl. 141.70
Unilever C	Fl. 150	235	6.50	30	8.80	5	11.50	Fl. 151.70
Unilever P	Fl. 150	523	3.40	8	5	-	-	Fl. 151.70
Van Ommeren C	Fl. 50	270	2.30	2	3.50	5	4.80	Fl. 46.20
Van Ommeren P	Fl. 45	260	2.10	-	-	-	-	Fl. 46.20
Wessanen P	Fl. 90	103	2.50	5	3.50	-	-	Fl. 91.80

TOTAL VOLUME IN CONTRACTS : 57,743
A=Ask B=Bid C=Call P=Put

MONEY MARKETS

London rates lower

UK INTEREST rates were lower in London yesterday as the pound cootiooed to improve. The trend in rates appears now to be largely dependeot on the performance of sterling. Domestic consideretions are now seen as suggesting thet the current level of rates is high enough to contain excessive growth in consumer spending, money supply and inflation. Three-mooth interbank mooey was quoted at 13⅞-13¹¹⁄₁₆ per cent compared with 13¹⁵⁄₁₆-13⅞ per cent on Wednesday while the one-year rate slipped to 13⅝-13½ per cent from 13¹¹⁄₁₆-13⅝.

UK clearing bank base lending rate 14 per cent from May 24

The Bank of England forecast a shortage of around £100m. Factors affecting the market included bills maturing in official hands and a take-up of Treasury bills, together with repayment of any late assistance draining £225m. There was also a rise in the note circulation of £80m. These were partly offset hy Exchequer transactions which added £140m and banks' halances brought forward £70m above target.

The forecast was revised to e shortage of around £150m, but the Bank gave no assistance in the morning. A further revisioo took tha forecast to e shortage of around £200m, and the Bank gave assistance in the afternoon of £106m through outright purchases of eligible bank hills in band 1 at 13¾ per cent. Late help cama to £10m.

In Frankfurt, the Bundesbank left its leoding rates unchanged after yesterday's meeting of the central council. The next meeting is not scheduled until August 24, and yesterday's decision is seen as e rubber stamp for stability in West German interest rates for the time being.

Meanwhile, short-term liquidity levels remain tight as funds are drained by end of month salary payments. However, traders feel that commercial banks may still have sufficient funds to meet end of month minimum reserve requirements with the central bank.

In Amsterdam, the Dutch central bank added Fl 2.04bn through its latest seven-day special advances facility at a fixed rate of 7.1 per cent. This replaced e maturing agreement of just Fl 371m, but the injection of extra funds is considered to be necessary to meet day-to-day requirements, and is not regarded as indicating e shift in monetary policy.

In New York, the US Federal Reserve made four-day metched sale and repurchase agreements, arresting the decline in overnight Federal funds. At the time of the intervention, short-term money was quoted at 9 per ceot compared with 8¾ per cent oo Wednesday.

FT LONDON INTERBANK FIXING

(11.00 a.m. July.27) 3 months US dollars		6 months US Dollars	
bid 8¹¹⁄₁₆	offer 8¹³⁄₁₆	bid 8½	offer 8⅝

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime					
Prime rate	11	One month	8.17	Three year	7.73
Broker loan rate	10¼	Two month	8.39	Four year	7.72
Fed.funds	9¼	Three month	8.20	Five year	7.74
Fed.funds at intervention	-	Six month	7.90	Seven year	7.83
		One year	7.82	10-year	7.96
		Two year	7.68	30-year	8.08

July.27	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	6.75-6.85	6.85-7.00	6.85-7.00	6.85-7.00	6.85-7.05	7.00
Paris	9⅛-9½	9¼-9⅞	9¼-9⅞	9-9¼	9-9¼	8.75
Zurich	6⅞-6⅞	7-7⅛	-	7-7⅛	-	-
Amsterdam	6.81-6.94	7.02-7.12	-	7.08-7.18	-	-
Tokyo	5⅝-5⅞	5⅝-5¹¹⁄₁₆	-	5¹¹⁄₁₆-5¹¹⁄₁₆	-	-
Milan	12⅛-12½	12⅛-12¾	-	12½-13	-	-
Brussels	8.15	8⅞-8⅞	-	8⅞-8⅞	-	-
Dublin	9⅞-9⅞	9½-9⅞	9⅞-9⅞	9⅞-10	10-10⅛	-

LONDON MONEY RATES

July.27	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	13¹³⁄₁₆	13⅞	13⅞	13⅞	13⅞	13⅝
Interbank Bid	13⅛	13¾	13¹³⁄₁₆	13¹¹⁄₁₆	13½	13⅝
Sterling CDs.	-	-	13¹³⁄₁₆	13¹¹⁄₁₆	13½	13½
Local Authority Deps.	13⅝	13¾	13¹³⁄₁₆	13¾	13½	13¼
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	13⅞	13¾	13¾	13½	-	-
Company Deposits	-	-	13¹³⁄₁₆	13⅞	13⅝	13⅝
Finance House Deposits	-	-	13⅞	13⅞	13¹¹⁄₁₆	13⅝
Treasury Bills (Buy)	-	-	13¹¹⁄₁₆	13⅝	-	-
Bank Bills (Buy)	-	-	13¹¹⁄₁₆	13⅝	12¹³⁄₁₆	-
Fine Trade Bills (Buy)	-	-	14⅛	14	13¹³⁄₁₆	-
Dollar CDs	-	-	9.00	8.80	8.60	8.35
SDR Linked Dep Offer	-	-	8⅞	8⅞	8⅞	8⅞
SDR Linked Dep Bid	-	-	8⅝	8⅝	8⅝	8¼
ECU Linked Dep Offer	-	-	9⅛	9⅞	9¼	9¼
ECU Linked Dep Bid	-	-	9	9⅛	9⅛	9⅛

Treasury Bills (sell); one-month 13½ per cent; three months 13¼ per cent; Bank Bills (sell): one-month 13¹³⁄₃₂ per cent; three months 13¹¹⁄₃₂ per cent; Treasury Bills; Average tender rate of discount 13.2762 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June 30, 1989. Agreed rates for period July 26, 1989 to August 25, 1989, Scheme I: 14.90 p.c., Schemes II & III: 15.51 p.c. Reference rate for period June 1 to June 30, 1989, Scheme IV&V: 14.175 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 14 from July 1, 1989: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 9½ per cent; one-three months 11 per cent; three-six months 11 per cent; six-nine months 11 per cent; nine-twelve months 11 per cent; Under £100,000 9½ per cent from December 1, 1988. Deposits withdrawn for cash 5 per cent.

BASE LENDING RATES

	%		%		%
ABN Bank	14	Clydesdale Bank	14	NatWestminster	14
Adam & Company	14	Comm. Bk. N. East	14	Northern Bank Ltd	14
AAB - Allied Arab Bk	14	Co-operative Bank	*14	Norwich Gen. Trust	14
Allied Irish Bank	14	Coutts & Co	14	PRIVATbanken Limited	14
● Henry Ansbacher	14	Cyprus Popular Bk	14	Provincial Bank PLC	15
Associates Cap Corp	14	Dunbar Bank PLC	14	R. Raphael & Sons	14
Authority Bank	14	Duncan Lawrie	14	Roxburghe G'rantee	14½
● B & C Merchant Bank	14	Equatorial Bank plc	14	Royal Bk of Scotland	14
Bank of Baroda	14	Exeter Trust Ltd	14½	Royal Trust Bank	14
Banco Bilbao Vizcaya	14	Financial & Gen. Bank	14	● Smith & Williamson Secs.	14
Bank Hapoalim	14	First National Bank Plc	15	Standard Chartered	14
Bank Credit & Comm	14	● Robert Fleming & Co.	14	TSB	14
Bank of Cyprus	14	Robert Fraser & Ptnrs.	14½	United Bk of Kuwait	14
Bank of Ireland	14	Girobank	14	United Mizrahi Bank	14
Bank of India	14	● Guinness Mahon	14	Unity Trust Bank Plc	14
Bank of Scotland	14	HFC Bank plc	14	Western Trust	14
Banque Belge Ltd	14	● Hambros Bank	14	Westpac Bank Corp.	14
Barclays Bank	14	Heritable & Gen Inv Bnk	14	Whiteaway Laidlaw	14
Benchmark Bank PLC	14	● Hill Samuel	§14	Yorkshire Bank	14
Berliner Bank AG	14	C. Hoare & Co.	14		
Brit Bk of Mid East	14	Hongkong & Shangh	14		
● Brown Shipley	14	● Leopold Joseph & Sons	14		
Business Mtge Tst	14½	Lloyds Bank	14		
CL Bank Nederland	14	Meghraj Bank Ltd	14		
Central Capital	14	McDonnell Douglas Bnk	14		
● Charterhouse Bank	14	Midland Bank	14		
Citibank NA	14	Mount Banking	14		
City Merchants Bank	14	Nat. Bk. of Kuwait	14		

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JOTTER PAD

CROSSWORD

No.6,997 Set by CINEPHILE

Clues marked * have been wrongly numbered; their solutions should be entered where there is another marked clue in that section of the diagram where provision has been made for them (see 12 and 25 across, and 11 and 20 down).

ACROSS

1 Indonesian who goes further north when President replaces Vice (8)
5 Greek king in mythology gesticulating (6)
*9 Sees land, possibly, and slippers on the beach? (4,4)
*10 Witch has soldiers boiled in skin (6)
12 Provision for South African youth (5)
13 Tryst with unknown, deceptive move, by palm tree (5,4)
*14 Nut for rehearsal, Monday morning (6)
16 I can almost put in the end of the vicious spiral (7)
19 Old Testament rebel stirs moh, alas! (7)
*21 Compiler has followed the last like chicory (6)
23 Bright idea born with falling and rising water (5-4)
25 Provision for one in horse-racing when backed (5)
*26 Leaper for rehearsal, Monday morning (6)
*27 Essayist getting the sack should be minted (4,4)
28 Ded takes payment himself, maybe (6)
29 Her cares need investigation (8)

DOWN

1 Funny boy eating lettuce (6)
2 Scheme among rodents is gliding (9)
3 Investigated numbers for edition (5)
4 Walk unsteadily from singular mess (7)
6 1,000 garlands arranged with complete success (5,4)
7 Letter in magazine turned up by graduate (5)
*8 Chinese chap upsets a doctor at home (8)
11 Provision for heavy drinker (4)
15 Person from Chicago, for example, sick and in love with Scot (9)
17 William, chestnut (we hear) and gold (9)
*18 Legislation by ancient British king needs dressing (8)
20 Provision of some attire (4)
21 It's mean to declare how old someone is (7)
22 Gun at church creates stink (6)
24 A month with the Queen is boring (5)
25 It's sweet to be evasive (5)

Solution to Puzzle No.6,996

CRABBY BASSET / TAUTEST RELEASE / DETERMINES STAY / TENET REMINDER / ENNOBLES GREAT / BENT SPECIALISE / FINALLY DISPLAY / SCENTS URGENT

[illegible]

WORLD STOCK MARKETS

AUSTRIA — BELGIUM/LUXEMBOURG — DENMARK — FINLAND — FRANCE — FRANCE (continued) — GERMANY — GERMANY (continued) — ITALY — ITALY (continued) — NETHERLANDS — NORWAY — SPAIN — SWEDEN — SWITZERLAND — SOUTH AFRICA — AUSTRALIA — AUSTRALIA (continued) — HONG KONG — JAPAN — JAPAN (continued) — SINGAPORE

[illegible]

CANADA

TORONTO
Closing prices July 26

[illegible]

Total Sales 7,851,897 shares.

MONTREAL
Closing prices July 26

[illegible]

INDICES

NEW YORK DOW JONES

	July 26	July 25	July 24	July 21	1989 High	1989 Low	Since compilation High	Since compilation Low
♦Industrials	2613.05	2583.08	2584.98	2607.36	2613.05 (26/7)	2144.64 (3/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	92.93	92.79	92.75	92.93	93.02 (14/7)	87.35 (23/3)	-	-
Transport	1266.66	1253.07	1240.30	1231.40	1266.66 (26/7)	959.95 (3/1)	1266.66 (26/7/89)	12.32 (8/7/32)
Utilities	217.18	215.42	215.92	217.05	217.68 (19/7)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2621.21 (2610.39) Low 2563.73 (2565.63)

STANDARD AND POOR'S	July 26	July 25	July 24	July 21	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite ‡	338.05	333.88	333.67	336.90	338.05 (26/7)	275.31 (3/1)	338.05 (26/7/89)	4.40 (1/6/32)
Industrials	387.31	382.20	382.38	385.31	387.31 (26/7)	318.66 (3/11)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	31.82	31.84	31.75	31.81	31.85 (19/7)	24.30 (3/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	188.14	186.10	186.03	187.15	188.14 (26/7)	154.98 (3/1)	188.14 (26/7/89)	4.46 (25/4/42)
Amex Mkt. Value	372.78	370.12	369.82	371.28	372.78 (26/7)	305.24 (3/1)	372.78 (26/7/89)	29.31 (9/12/72)
NASDAQ OTC Comp	449.12	446.47	445.98	449.29	453.65 (9/6)	378.56 (3/1)	455.28 (26/8/87)	54.87 (31/10/72)

	July 21	July 14	July 7	year ago (approx.)
Dow Industrial Div. Yield	3.47	3.54	3.63	3.54

	July 19	July 12	July 5	year ago (approx.)
S & P Industrial div. yield	2.92	2.98	3.06	3.12
S & P Indl. P/E ratio	14.10	13.81	13.47	14.10

TRADING ACTIVITY † Volume

Millions	July 26	July 25	July 24
New York	188.270	179.270	136.360
Amex	12.992	11.056	11.479
OTC	124.475	127.654	108.064

NEW YORK	July 26	July 25	July 24
Issues Traded	1946	1969	1970
Rises	967	762	531
Falls	479	676	935
Unchanged	500	531	504
New Highs	141	135	89
New Lows	18	24	28

CANADA

TORONTO	July 26	July 25	July 24	July 21	1989 High	1989 Low
Metals & Minerals	3415.9	3316.1	3292.7	3327.6	3564.9 (6/2)	3207.5 (3/1)
Composite	3935.3	3899.8	3893.9	3901.4	3935.3 (26/7)	3350.5 (6/1)
MONTREAL Portfolio	2000.43	1977.12	1971.72	1974.76	2000.43 (26/7)	1677.48 (3/1)

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Security Pac xd	8,201,800	50⅛	+ ⅛	IBM	2,195,900	112⅛	− ⅛
Unisys	3,379,400	20¼	+ ½	AT&T	2,122,300	39⅜	+ 1
Ford Motor	3,028,200	50½	+ ⅝	Baxter Intl	2,076,500	22¼	+ 1⅛
Smithkline	2,921,000	62¼	+ ⅞	Macdonald's	1,912,800	30	+ ⅜
Exxon	2,208,600	44½	+ ⅛	Smith WI	1,874,900	41⅛	+ 1

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	July 27	July 26	July 25	July 24	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1628.2	1617.7	1606.5	1607.6	1628.2 (27/7)	1412.9 (7/4)
All Mining (1/1/80)	763.1	756.0	749.9	748.8	763.1 (27/7)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	358.53	358.22	354.90	351.28	366.67 (21/6)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6106.37	6088.67	6070.04	6068.87	6158.43 (13/6)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	350.56	348.55	346.06	346.09	356.65 (12/7)	275.49 (27/2)
FINLAND						
Unitas General (1975)	779.1	777.5	777.8	778.2	815.8 (18/4)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	497.8	495.4	495.5	496.7	497.8 (27/7)	417.9 (4/1)
Ind. Tendance (30/12/88)	119.3	118.1	118.3	118.1	119.3 (27/7)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	643.52	645.59	637.75	638.40	645.59 (26/7)	535.78 (27/2)
Commerzbank (1/12/53)	1923.7	1928.9	1903.9	1906.6	1928.9 (26/7)	1595.7 (27/2)
DAX (30/12/87)	1567.05	1568.52	1555.83	1543.30	1568.52 (26/7)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2493.71	2489.03	2517.02	2482.54	3309.64 (15/5)	2093.61 (5/6)
ITALY						
Banca Com. Ital. (1972)	679.76	670.89	664.01	666.17	683.39 (17/7)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	34785.28	34515.83	34538.90	34093.3	34785.28 (27/7)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2605.48	2586.13	2584.07	2546.61	2605.48 (27/7)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen. (End 1983)	257.4	256.0	256.4	255.4	257.4 (27/7)	208.3 (3/1)
CBS All Shr (End 1983)	200.4	199.2	199.6	198.8	200.4 (27/7)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	649.09	663.25	661.50	662.36	668.90 (14/7)	467.17 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1366.36	1370.35	1371.37	1358.90	1371.37 (25/7)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1616.0♦	1584.0	1574.0	1572.0	1639.0 (23/3)	1291.0 (15/2)
JSE Industrial (28/9/78)	2687.0♦	2676.0	2679.0	2675.0	2687.0 (27/7)	1961.0 (3/1)
SPAIN						
Madrid SE (30/12/85)	300.78	301.74	302.31	302.83	315.90 (13/6)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4426.9	4419.1	4404.3	4393.6	4426.9 (27/7)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	766.1	766.1	763.2	766.6	766.6 (24/7)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	532.9	526.3	522.7	532.9 (26/7)	487.6 (13/6)

♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Thursday July 27 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
MHI	44.7m	1,270	-20	Nippon Steel	31.1m	885	9
Daiwa House	38.1m	2,680	+60	Sumitomo	28.9m	1,540	+80
Obayashi	37.9m	1,960	+60	NYK Line	28.9m	1,130	-10
SHI	32.4m	1,260	9	Teijin	26.4m	990	+20
Sekisui Chmcl	31.8m	1,690	0	Mitsui	24.7m	1,190	+40

2pm prices July 27

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
35¼	21⅛	AAR	.44	1.3	21	20	32⅞	32½	32¼	
10⅛	8⅝	ACM a	1.01	11.		118	9⅛	9¼	9¼	– ⅛
11⅜	10¼	ACMIn	1.25a	11.		110	11½	11⅜	11⅜	– ⅛
18⅛	8½	ACM M	n1.07	11.		178	9⅝	9⅞	0	
11½	10	ACM Sc	1.28	11.		567	11⅜	11⅛	11⅜	+ ⅛
9½	8⅛	ACMSp	1.01	11.		409	9¼	9⅛	9¼	+ ⅛
17⅛	10⅞	AL Lab	.12	.7	15	64	16¾	16½	16¾	+ ⅛
8⅛	4½	AM Intl				506	5⅝	5¼	5¼	
23½	22⅝	AM In pf	2	9.4		2	21⅛	21⅛	21⅛	+ ⅛
69¼	46⅞	AMR			9	4989	u69½	68⅝	68⅞	+ ¼
8⅝	3⅝	ARX				16	4⅛	4⅛	4⅛	– ⅛
43½	36¼	ASA	3a	7.1		172	42⅝	42⅛	42⅝	
22⅞	18¼	AVX	.24	1.2	9	116	19⅞	19¼	19¼	– ⅛
63⅝	43½	AbtLab	1.40	2.2	18	2323	u64½	63¼	63¼	+ ⅞
18¼	13¼	Abitibi g	1			18	14	13¾	14	+ ⅛
13	7½	AcmeC	.40	3.4		11	13	11⅞	11⅞	
54¾	29¼	Acuen			27	261	34¼	33	34	+1
16⅞	14¼	AdaEx	1.52e	11.		42	16	16⅞	16⅞	
13⅞	7⅛	AMD				644	8⅞	8¼	8⅞	– ⅛
11⅞	5½	Adobe				65	11⅛	11	11	
18¼	18½	Adob pf	1.84	0.8		18	18¼	16⅝	16¼	
21⅞	10⅞	Adob pf	2.42	11.		4	21	26⅞	21	+ ⅛
9⅝	6⅛	Advest	.12	1.5	14	62	8	7⅞	7⅞	+ ⅛
90⅞	43½	AetnLf	2.16	4.7	0	2036	35¼	57	58¼	+ 1¼
14	12⅛	AflPb				2271	18⅛	12⅞	18½	+ ½
23⅛	14⅛	Ahmans	.86	4.1	18	2885	21⅛	21½	21⅛	
4⅝	2⅛	Aileen				4	5½	2½	2½	– ⅛
40⅝	37¼	AirPrd	1.32	3.0	11	1168	44⅝	44	44⅜	+ ⅛
81¼	15½	AirbFrt	.60	1.9	29	32	31¾	81⅜	31⅝	– ⅛
26⅛	13⅛	Airgas			15	25	25¼	24⅝	24⅝	– ⅛
20½	17⅞	Airlease	2.40	12.	9	35	26	19¼	10⅞	
38	21½	AlaP	pf2.13e	9.4		2	22⅛	62⅛	22⅛	+ ½
18	8½	AlaP	dpf.87	8.3		8	9⅞	9⅞	9⅞	+ ⅛
90⅞	36	AlaP	pf 5.16	9.0		z100	90½	90½	25⅛	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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NYSE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous Page										
22½	13¼	Seatchl	1.28e	8.3	5	949	15¼	15⅜	15⅜	
15⅜	11¼	SabnR	1.32e	10.	10	7	12⅞	12⅞	12⅞	
19	14½	SigdSc			13	68	16½	16⅛	16⅛	− ⅛
33⅛	23⅛	SafKln	.36	1.2	22	1224	29⅞	29½	29¾	− ⅛
9⅜	8⅛	SahCas	1.12	13.		99	8⅞	8¾	8¾	
23	20¼	StJoLP	1.82	8.7	9	4	23	22¾	22¾	
28⅞	12½	Selant			13	21	24	24	24	− ⅛
44⅝	30	SalleM s	.40	.9	19	1928	43⅞	43⅝	43¾	+ ⅛
29⅛	22⅜	Salomn	.64	2.4	72	5070	26½	25⅞	26½	+ ⅜
41⅞	38¼	SDieGs	2.70	6.6	14	629	41⅝	41¼	41⅝	+ ¼
9⅛	6⅞	SJuanB	.21s	2.4	33	23	8⅝	8⅝	8⅝	
34¼	28½	SAnkFR	2.08	6.9	20	85	30¼	30	30⅛	+ ⅛
17⅛	11	SFeEP	2.88	24.		21	10⅞	12	12	− ⅛
24⅝	20	SFePP	n2.20	9.6		186	23⅛	22¾	23	+ ⅛
94⅞	15¼	SFePCp				1072	61⅞	21⅝	21⅞	− ⅛
61⅛	36	SaraLee	1.44	2.4	18	2006	u61⅞	60¾	60⅞	− ½
20	23⅛	SavE	pfA2.37	9.3		6	25½	25½	25½	+ ⅛
15-32	3-16	Savin				1242	9-32	d ⅛	9-32	
8½	4⅛	Savn	pfB.80t	13.		2	6	6	6	
34½	29⅞	SCANA	2.48	7.2	12	105	34⅛	33¾	34⅛	
10⅝	6⅞	Schfr	.20e	2.0		12	10⅛	10⅛	10⅛	− ⅛
71¼	49½	SchrPlg	1.56	2.4	19	8677	u75½	74¼	74¼	+3
42¼	66⅞	Schlmb	1.20	2.9	20	1532	41⅞	41¼	41½	
15½	5¼	Schwb	.08e	.4	25	235	15	14⅞	15	+ ⅛

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
20	19¼	Wynns	.60	2.2	13	5	27	26¾	27	
21¼	4½	Wyse				387	6⅛	5⅛	5⅞	− ⅛
− X−Y−Z −										
60	51⅛	Xerox	3	4.5	19	4586	67¼	66¾	67¼	+ ½
48¾	44½	Xerox	pf4.13	8.7		1	47½	47½	47½	+ ½
44¼	29⅞	XTRA	.72	2.3	13	28	31⅛	30⅞	30⅞	− ⅛
4⅞	2	Zapata				442	3⅛	3½	3⅝	− ⅛
16½	10½	Zemex	.40	3.4	129	4	11⅝	11⅛	11⅝	− ⅛
24½	16½	ZenithE				2124	17⅞	17⅛	17⅜	− ½
10⅝	6⅞	Zeninc	1.26	13.		94	9½	5⅛	2½	+ ⅛
2⅞	1⅛	vjZenLb				149	1⅛	1⅛	1⅛	+ ⅛
21⅞	15	ZenNtl	.84	4.3	9	13	19⅝	12	19⅝	+ ⅛
22⅝	14⅞	Zero	.50	2.4	16	79	21⅛	20⅞	20⅞	− ⅛
49¾	21	Zurnis	.80	1.8	21	117	42⅝	42¼	42¾	− ⅛
11⅞	13	Zweig	1.08e	9.4		375	11⅛	11½	11⅝	
10⅛	8¼	Zweig 0	.96	10.		875	9⅞	9½	9⅝	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

2pm prices July 27

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
ValFrg	.26	11	4	13½	13½	13½	− ⅛
VIAmC	a.40b	21	17	32¾	32⅛	32¾	− ⅛
WangB	.15		2272	6⅞	6¾	6⅞	
WangC	.11		6	6¼	6¾	6¾	
WshPst	1.84	21	44	280½	280	280½	− ½
Wbdrd			130	2⅞	2¼	9¼	− ⅛
Wellco	.25	8	2	15⅜	15⅝	15⅝	− ⅛
WellAm			38	1⅛	d 1	1⅛	
WelGrd		26	28	5¼	5⅞	5¼	+ ⅛
WAmBc	.40	17	17	18⅞	18⅛	18⅛	
WDigitl		5	1250	8⅞	d 8½	8½	− ⅛
Worthn		21	20	9⅞	9⅛	9⅞	+ ⅛

OVER-THE-COUNTER

Nasdaq national market, 2pm prices July 27

Stock	Div.	Sales 100s	High	Low	Last	Chng
Wilamt	1.45	7 41	48⅛	48½	48½	
WlmTr	1.24	13 380	43½	43½	43	+ ½
WiserO	.48	62 118	16⅞	15½	16⅛	− ⅛
Wolohn	.20	9 44	18⅜	15¼	18⅛	+ ¼
WrtEx h		3401	8⅜	8½	8⅝	+ ⅛
Worthg	.40	15 316	23⅜	20¼	23½	+ ⅜
Wyman	.66	15 112	10	10½	10	+ ⅛
−X−Y−Z−						
XL Dta s		19 201	23¼	22⅛	22⅞	+ ⅛
XOMA		182	16½	19⅛	10½	+ ⅛
Xicor		9 753	6⅞	8½	6¼	+ ⅛
YelowF	.10	16 355	27¼	20⅞	27	− ⅛
ZionUt	1.44	8	26½	35⅜	26½	
Zycad		15	2⅞	2⅛	2⅞	

AMERICA

GNP figures prompt further gains

Wall Street

SECOND quartar gross national product figures released yesterday confirmed a deceleration in the economy and helped the equity market advance from Wednesday's highs, *writes Jones Bush in New York.*

While the Dow Jones Industrial Average is still about 4 per cent below its all-time high set in August 1987, the broadly-based Standard & Poor's 500 index is trading easily above its record highs. The secondary indices on the American Stock Exchange and the Nasdaq over-the-counter market are also at peak levels.

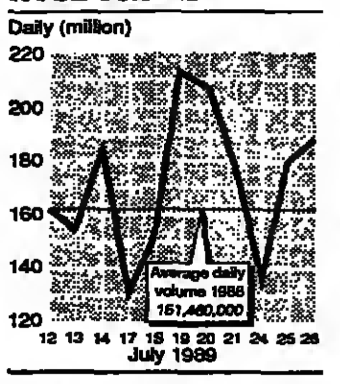
The S&P 500, used as the basis of passive or indexed portfolios worth more than $200bn, closed at an all-time high of 338.05 on Wednesday and had moved up another 2.15 to 340.20 by midsession yesterday. This compares with the previous record of 336.77 on August 25, 1987.

At 2 pm, the Dow Jones was quoted 8.54 points higher at 2,621.59 on active volume of 130m shares.

The market's ability to advance yesterday was impressive, given that about half of Wednesday's 29.97 point rise was attributed to stock index arbitrage and can sometimes be reversed swiftly.

Equities were underpinned by yesterday's second quarter GNP figures which showed a little more weakness in the economy than had been expected. GNP rose 1.7 per cent in

NYSE volume



the second quarter compared with forecasts of 2 per cent, while first quarter growth was revised down to a 3.7 per cent rise from 4.4 per cent previously reported.

The implicit price deflator rose by a 4.9 per cent annual rate compared with 4.0 per cent in the first quarter while the fixed weight index rose by 5.2 per cent from a 4.6 per cent rate in the first quarter.

Both indices rose by slightly less than forecast and, in spite of the fact that both accelerated from the first three months of the year, markets do not appear to be seriously concerned. They appear to have accepted the view of Mr Alan Greenspan, Fed chairman, that the substantial price gains of the first half were attributable largely to supply conditions in the food and energy sectors, and were temporary.

Also fuelling buying of equities has been this week's easing of the Fed Funds range to between 9 and 9¼ per cent from the previous 9¼ to 9¾ per cent. There may be room for a further ¼ point easing before the August 22 meeting of the Federal Open Market Committee.

Speculative takeover fever continued to influence the market's strength. The main news yesterday was the agreement to merge Bristol-Myers and Squibb into a health care company with combined 1988 annual sales of $8.6bn. Under the agreement, Squibb will be merged with Bristol-Myers through a tax-free exchange of shares. The deal is worth more than $11bn. Bristol-Myers fell $3¼ to $48⅛ while Squibb soared $23⅞ to $111⅞.

Two new issues added to the S&P 500 were buoyed by the usual buying interest as passive portfolio managers adjusted to include the new stocks. United Telecommunications jumped $3¾ to $73⅜ while Tyco Laboratories added $1⅞ to $44⅞.

Paramount Communications added $1½ to $59¾ on reports that the company is close to selling its financial services subsidiary Associates Corp for between $3bn and $4bn.

Chrysler dropped $1¼ to $24⅝, having added $2½ on Wednesday when rumours of a restructuring swept the market. The company was due to meet managers yesterday to discuss ways of cutting costs.

Philip Morris added to this week's considerable gains with a rise of $⅞ to $157⅞. Coca-Cola, another strong performer this week, added $1⅞ to $64 but IBM was down $⅞ at $112.

Canada

THE US GNP figures prompted serious buying in Toronto. The composite index rose 26.7 to 3,961.9 with advances ahead of declines 233 to 179 on volume of 16m shares.

Canadian Pacific led the actives until mid-morning, rising C$⅞ to C$25⅞ on trade of 1.04m shares before the stock was suspended. Speculation in the stock centred on the large European orders which were said to be anticipating news of a possible restructuring.

Political tremors unsettle Bombay

R.C. Murthy explains this week's sharp setback in share prices

THE 70 kph gale that lashed Bombay at the weekend caused widespread damage although the city was not in the eye of the storm. More serious for the stock market were the political tremors, with the epicentre in New Delhi, which have rocked the exchanges and unsettled a programme of capital issues.

Bombay Stock Exchange reacted bearishly as opposition parties demanded the resignation of Mr Rajiv Gandhi, the Prime Minister, after a report by the Comptroller and Auditor-General raised questions over the $1bn Howitzer deal with Bofors of Sweden.

Traders at the exchange, India's largest with two-thirds of total trading, were caught unawares by a string of opposition successes.

The opposition parties had blocked proceedings since Parliament reassembled on July 17 for the so-called monsoon session, and this was followed by the resignation of 85 opposition MPs in the lower house this week. A programme of agitation is planned for August to try to force early elections.

The Bombay stock exchange 30-share index dropped 20 points to 734.17 on Friday and Tuesday (Monday was a holiday) before state investment funds stepped in on Wednesday and triggered a partial recovery. Yesterday, however, rumours spread that Mr Gandhi *had resigned* and the market plunged again, losing 20.49 points on the BSE index to 722.64.

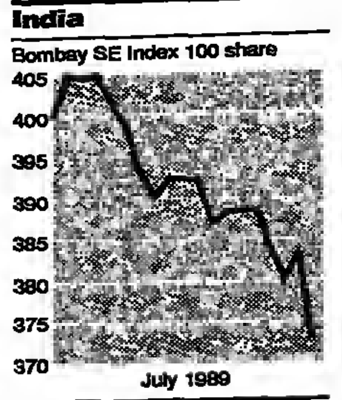
The course of events in New Delhi has not gone the way the markets expected. Each time the Bofors contract has come up for discussion over the past two years, the issue has been defused and the Gandhi Government has thwarted opposition moves.

About 80 actively traded shares have borne the brunt of investors' dismay, with the BSE 30-share index down by 9 per cent from its peak of 798.01 on July 5. The 100-share national index, representing all stock exchanges, has fallen by about 8 per cent.

Political uncertainties have overshadowed strong fundamentals, on the basis of which merchant bankers have been planning large public offers of shares and debentures.

Monsoon rains have been timely and well-spread, enhancing prospects of a bumper crop for the second year in succession. The Indian economy is poised this year for growth of more than 5 per cent. Corporate results have been good and most blue chip companies have raised dividends.

India



On Tuesday, the Bombay Stock Exchange lifted margins by way of cash deposits on sales of 14 speculative shares to 20 per cent from 12.5 per cent and state-owned investment institutions re-entered the market after a lapse of three weeks, making large purchases of Tata Iron and Steel, Tata Engineering and Reliance Industries.

The slide was halted and the 30-share index went up 9 to 743.13 on Wednesday, before dropping again yesterday.

Market bulls argue that the ruling congress party has regained the initiative and take comfort from Mr Gandhi's statement that he will choose the timing of the elections, which have to be held before January. They expect him to rush through parliament certain important bills enhancing the powers of local governments, on which the opposition is on the defensive, to make "power for the people" an important poll plank.

Individual investors are still selling to generate cash for subscriptions to blue chip convertible bond issues in September and October for an estimated Rs30bn ($1.8bn). Larsen and Toubro, a high technology engineering company that came to the fold of Mr Dhirubhai Ambani last year, is to offer Rs9.2bn in convertible bonds, the largest amount so far, in mid-September.

Merchant bankers are reviewing the public offer schedule of lesser known companies, while some others are reducing the premium of rights issues to make them more attractive. Essar, Gujarat and Oswal Group are to issue convertible bonds of some Rs5bn each, in addition to Rs10bn by a dozen other companies.

Many people take the view that companies should tap the capital market before the elections, whose outcome is uncertain, so that capital expenditure programmes *need not be* put on hold.

EUROPE

Paris steps up smartly as Frankfurt consolidates

MOST bourses ended higher in fairly active volume but profit-taking left Frankfurt slightly weaker, *writes Our Markets Staff.*

PARIS rose briskly, boosted by Wall Street's strength and international and domestic buying of selected stocks. The OMF 50 index closed at a day's high of 511.50, up 5.33, and the CAC 40 real time index was up 24.70 at 1,815.85. The opening CAC General reached an all-time high of 497.8, up 1.1.

Gains came in spite of a meeting of the bourse employees' union which caused a two-hour halt in trading of the six blue chips still traded by open outcry. More problems are expected today as the union has called a 24-hour strike.

Turnover yesterday was nevertheless *reported to be at least* FFr2bn, well up on Wednesday's very low FFr1.1bn.

Among the big rises, pharmaceutical Sanofi *added FFr59* to FFr1,055 after announcing 20 per cent higher first half sales.

Utilities conglomerate Générale des Eaux climbed FFr84 to FFr2,138 on talk of a shake-up in the share structure of Canal Plus, the television channel in which it has a large stake. Another big shareholder, Havas, was up FFr25 at FFr1,039.

Club Med jumped FFr35 to FFr670 on unconfirmed press reports of a possible link-up with French airline UTA.

CGE, the electrical group, slipped FFr1.10 to FFr449.90 against the trend. According to brokers County NatWest WoodMac, the company has received a series of blows, including winning none of the Eurotunnel orders for rolling stock and locomotives.

FRANKFURT closed mixed to lower after building strongly on Wednesday's year highs at the opening. The decline was not unexpected: "the market was due for a rest," said one analyst, adding that trading for the rest of the summer could be more subdued than of late.

The DAX index eased 1.47 to 1,567.05 after reaching 1,572.92 earlier. The FAZ index, which reflects midsession trading, was off 2.07 at 643.52. Turnover was active at DM5.5bn but less than the previous day's levels.

The analyst attributed the market's recent rally to the emergence in West Germany of the "Japanese view", where investors study companies' asset values rather than published earnings. By this reckoning, shares of building companies and retailers, for example, look fairly cheap and have consequently attracted buyers.

Commerzbank fell DM7.50 to DM272 after announcing almost unchanged first half earnings. Dresdner and Deutsche Bank, both of which report next week, rose DM2.50 to DM366 and 50 pfg to DM679.50 respectively.

ZURICH rose in heavy trading, with financial stocks again leading the way upwards. The Crédit Suisse index gained 4.0 to 638.6.

CS Holding bearers performed well, adding SFr30 to SFr2,775 after touching SFr2,840, and Union Bank added SFr20 to SFr3,910.

Chemicals were mostly weaker, while food stocks strengthened.

MILAN rose again, with activity focused on the banking and insurance sectors, and on blue chips. A dealer said banks had been far and away the best performing sector of the past year, a target for domestic and foreign buyers.

The insurance sector attracted interest after Royal Insurance of the UK agreed to pay L180bn (£90m) for a "small" division of La Fondiara. Generali added L925 to L44,900. The Comit index rose 8.87 to 679.76. Volume was estimated near Wednesday's L210bn.

AMSTERDAM was higher on the day, with the CBS tendency 0.9 higher at 192.5. Volume was a moderate Fl 744m.

Among banks ABN, up 80 cents at Fl 46.20, extended gains on Wednesday's acquisition of Exchange Bancorp of Chicago. NMB was Fl 3 firmer at Fl 268 amid reports that a *planned merger with the Dutch* state-owned Postbank was facing renewed union opposition over social aspects of the merger accord; but NMB said the merger was still on.

In chemicals, Akzo put on Fl 1.40 to Fl 143.40 on high hopes for the company's second quarter profits, due on August 3. Royal Dutch rose 20 cents to Fl 141.70 as its US unit Shell Oil reported a jump of 61 per cent in second-quarter net.

BRUSSELS saw profit-takers move in and ended off its day's highs but the cash market index still rose 17.9 to 6,106.57.

Raffinerie Tirlemontoise, the *sugar refiner,* eased BFr30 to BFr2,570 after hitting a high of BFr2,650 earlier in the session.

OSLO declined after poor results from Norsk Hydro, which lost NKr13.50 to NKr149 after reporting second quarter net profits more than halved. The all-share index dropped 7.48 to 506.03 in moderate turnover.

STOCKHOLM was driven to a fourth consecutive record high by strong gains in car stock Volvo. The Affärsvärlden General index rose 9.7 to 1,305.9 in reasonably active trade worth SKr302m. Volvo free B shares climbed SKr7 to SKr487 in heavy trade following newspaper reports of strong US sales.

MADRID saw another day of profit-taking. The general index lost 0.87 to 300.78 in slightly higher volume estimated at $85m.

Against the trend, oil group Repsol gained 8 percentage points to 458 per cent of par on US and European interest. *Paper and printing group* Ence came off 120 to 7,040 on profit-taking after its recent strong rise and Wednesday's news of good first half results.

SOUTH AFRICA

CONTINUED selective demand centred on gold shares, as the bullion price rose to about $375, and left Johannesburg firmer across the board.

ASIA PACIFIC

Yen rebound pushes Nikkei to all-time high

Tokyo

RIDING on a wave of confidence triggered by the yen's rebound against the dollar, share prices surged to another record high in buoyant trading yesterday, *writes Michiyo Nakamoto in Tokyo.*

The Nikkei average climbed above the all-time high reached just two days before, on Tuesday, *to finish at 34,785.28, up a* hefty 269.45 points.

The day's high was 34,788.02 and the low was 34,538.70. Advances led gains by 591 to 332 while 173 issues were unchanged.

The Nikkei's gain was supported by healthy turnover of 1.4bn shares, up from the 1.1bn traded on Wednesday. The Topix index of all listed shares moved up 19.35 to 2,605.48 and the ISE/Nikkei 50 index, traded in London, rose 1.52 to 2,076.14.

The yen's strong rebound against the dollar helped to boost confidence in the market. Investors had been concerned *that the crushing defeat for the* ruling Liberal Democratic Party in national elections at the beginning of the week would lead to weakness in the yen, and hence to a possible tightening of monetary policy in Japan. Yesterday, however, the dollar fell below Y139 for the first time in two weeks, reassuring investors.

The spreading conviction that US monetary policy was easing, which triggered the dollar's decline, also supported buying in equities. The overnight rise on Wall Street and the start of trading for August settlement gave further encouragement.

Housing-related issues kept their strength, because investors expect the strength of the *Japan Socialist Party to make* housing an important government issue. Daiwa House and Ohbayashi, the construction company, *each climbed Y60 to* Y2,660 and Y1,960 respectively. Daiwa was second on the volumes list with 38.1m shares and Ohbayashi followed with 37.9m.

Electrical engineering companies attracted attention in the belief that more and better housing – as well as increased building of high technology *buildings – would boost their* business. Kinki Electrical Construction surged Y120 at one stage to a record high of Y3,790, *closing up Y80* at Y3,760. Kandenko advanced Y120 to Y3,740.

Issues that are sensitive to interest *rate fluctuations* featured, on expectations that rates would move lower in the near term. Interest focused on trading companies and real estate companies. Mitsui, the large trading company, added Y40 to Y1,190 in active trading and Mitsubishi gained a strong Y60 to Y1,660. Mitsui Real Estate and Sumitomo Realty each firmed Y100 to Y2,710 and Y2,300 respectively and Mitsubishi Estate advanced Y60 to Y2,540.

The *improvement in volume* attracted the speculators. Hattori Seiko, the maker of *watches* and *clocks,* gained Y200 to Y3,050 and Nippon Shinpan, a credit sales company, rose Y90 to a record high *of Y1,650.*

Interest was seen in real estates, railways and trading houses in Osaka. The OSE average *rose 237.57 to 33,993.53* on volume of 141m shares.

Roundup

AN EARLY mood of optimism in the Asia Pacific region gave way to spells of profit-taking in Australia and New Zealand, while Hong Kong and Singapore remained subdued.

AUSTRALIA retreated from the day's high on sustained profit-taking in the afternoon session, but the All Ordinaries *index still closed 10.5 points* higher at 1,628.2, after earlier reaching 1,638.0.

The main feature of the market was record volume in options which soared to 141,000 contracts against what, said a *dealer, "might be 30,000 on* a good day."

Individual share interest focused mainly on the "nifty fifty", the top 50-capitalised stocks, in which options are mainly written. News Corp rose 35 cents to A$16.60 and BTR Nylex 18 cents to A$5.62.

National turnover was 160m shares worth A$381m.

NEW ZEALAND rose in advance of an evening budget speech yesterday, the Barclays index moving up another 17.80 points to 1,978.08 for a gain of 40.39 points on the week. The market was hoping for a resumption of the tax deduct*ibility of institutional* pension schemes, removed in 1988.

Observers in London yesterday said that there was no mention of this point in the budget; the New Zealand dollar barely moved, and currency dealers found it boring.

HONG KONG virtually went into limbo. in thin and narrow trading, the Hang Seng index rose 4.68 *points to* 2,493.71, after fluctuating by less than 25 points throughout the day. However, Great Eagle, whose tender won a prime property site in the business district on Wednesday, put on another 10 cents to HK$3.02½.

SINGAPORE was also subdued as speculative buying and bargain-hunting alternated with light profit-taking. Two-digit falls in some component stocks pushed the Straits Times Industrial index down 3.99 points to 1,966.36.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY JULY 26 1989						TUESDAY JULY 25 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (86)	140.25	+1.1	126.02	123.74	+0.6	4.82	138.78	126.50	122.95	157.12	128.28	147.85
Austria (19)	127.80	+1.3	114.88	124.47	+0.2	1.95	126.01	114.68	124.19	127.70	92.84	86.09
Belgium (63)	133.00	+1.3	119.51	129.23	+0.3	4.23	131.25	119.64	128.82	137.10	123.58	114.60
Canada (124)	147.94	+1.0	132.93	127.11	+0.9	3.17	146.44	133.49	125.96	147.94	124.67	123.22
Denmark (36)	213.05	+2.3	191.43	211.39	+1.2	1.48	208.29	189.86	208.79	219.89	165.35	128.40
Finland (26)	142.18	+1.0	127.75	126.37	+0.3	2.16	140.84	128.38	126.03	159.16	125.81	129.74
France (127)	128.57	+1.2	115.53	126.02	+0.1	2.96	127.07	115.83	125.12	128.57	112.57	92.94
West Germany (100)	97.69	+2.3	87.77	95.17	+1.2	2.14	95.50	87.05	94.01	97.69	79.56	75.60
Hong Kong (49)	103.86	-0.9	93.32	104.09	-0.9	5.15	104.82	95.55	105.05	140.35	86.41	108.21
Ireland (17)	153.06	+2.8	138.09	152.17	+1.8	2.79	149.62	136.29	149.52	153.88	125.00	140.08
Italy (97)	91.40	+2.2	82.12	92.06	+1.0	2.43	89.47	81.55	91.21	92.06	74.97	72.87
Japan (455)	185.49	+1.3	166.67	164.79	-0.1	0.46	183.14	166.93	165.02	200.11	164.22	165.89
Malaysia (36)	187.89	-0.6	168.82	183.17	-1.0	2.48	189.09	172.36	185.09	190.26	143.35	151.77
Mexico (13)	268.82	+0.2	241.55	743.03	-0.7	0.68	268.35	244.61	748.18	277.40	153.32	157.18
Netherland (43)	127.44	+0.9	114.51	122.94	-0.2	4.21	126.27	115.10	123.19	127.44	110.63	106.49
New Zealand (21)	68.01	+1.0	61.11	61.79	+0.0	6.02	67.33	61.37	61.80	76.02	62.64	80.24
Norway (25)	190.05	+0.7	170.77	178.06	-0.1	1.45	188.78	172.08	178.27	198.39	139.92	123.54
Singapore (26)	167.48	-0.1	150.49	151.12	-0.3	1.88	167.58	152.75	151.21	169.33	134.57	130.71
South Africa (60)	146.64	-0.2	131.76	133.01	+0.2	4.05	146.90	133.90	132.69	155.27	115.35	120.67
Spain (43)	152.75	+0.9	137.25	136.38	+0.1	3.77	151.38	137.97	136.57	156.17	143.14	147.70
Sweden (35)	181.65	+1.4	163.41	172.84	+0.6	1.99	179.31	163.45	171.88	181.66	138.45	118.89
Switzerland (64)	88.59	+2.0	79.60	88.59	+0.8	2.17	86.85	79.15	87.80	88.59	67.91	78.39
United Kingdom (311)	154.59	+1.3	138.90	138.90	+0.1	4.22	152.61	139.11	139.11	154.59	133.28	132.65
USA (553)	137.49	+1.2	123.54	137.49	+1.2	3.29	135.85	123.83	135.85	137.49	112.15	107.15
Europe (1006)	128.77	+1.5	115.70	120.96	+0.2	3.41	126.65	115.63	120.68	128.77	112.63	105.90
Nordic (122)	173.94	+1.6	156.29	161.20	+0.7	1.78	171.14	155.99	160.04	174.42	137.95	114.36
Pacific Basin (573)	180.68	+1.2	162.35	160.92	-0.1	0.70	178.48	162.69	161.13	194.72	160.44	162.69
Euro-Pacific (1579)	160.03	+1.5	143.79	144.90	+0.0	1.59	157.94	143.97	144.91	164.22	141.56	140.11
North America (677)	138.01	+1.2	124.01	136.85	+1.2	3.28	136.39	124.32	135.25	138.01	112.79	108.01
Europe Ex. UK (695)	112.46	+1.7	101.05	109.91	+0.6	2.79	110.62	100.83	109.31	112.46	96.30	89.29
Pacific Ex. Japan (218)	123.19	+0.3	110.69	112.83	+0.0	4.66	122.77	111.91	112.58	137.65	111.93	125.81
World Ex. US (1876)	159.54	+1.3	143.36	144.41	+0.0	1.88	157.50	143.57	144.37	162.77	141.49	139.35
World Ex. UK (2118)	150.23	+1.3	134.99	142.35	+0.5	1.99	148.35	135.23	141.69	150.23	136.98	126.35
World Ex. So. Af. (2369)	150.68	+1.3	135.35	142.07	+0.4	2.18	148.73	135.57	141.49	150.63	136.67	128.93
World Ex. Japan (1974)	134.15	+1.3	120.54	130.41	+0.8	3.39	132.49	120.77	129.39	134.15	114.51	108.19
The World Index (2429)	150.60	+1.3	135.32	142.00	+0.4	2.19	148.72	135.56	141.43	150.60	136.66	126.89

Latest prices were unavailable for this edition.

Constituent changes 27/7/89: Insertions: SmithKline Beecham A and SmithKline Beecham/SmithKline Beckman Units (both UK). Deletions: Hooker Corp. (Australia), Beecham (UK) and SmithKline Beckman (US).